



TECHNICAL UNIVERSITY OF MOMBASA  
*School of Business*  
DEPARTMENT OF ACCOUNTING AND FINANCE  
UNIVERSITY EXAMINATIONS FOR DEGREE IN  
BACHELOR OF COMMERCE  
BACHELOR OF SCIENCE MATHEMATICS & FINANCE  
**BFI 4310: FINANCIAL STATEMENTS ANALYSIS**  
END OF SEMESTER EXAMINATIONS  
**SERIES: APRIL 2025**  
**TIME: 2 HOURS**

**Instructions to Candidates**

You should have the following for this examination

*-Answer Booklet, examination pass and student ID*

This paper consists of **FIVE** questions.

Attempt question ONE (Compulsory) and any other TWO questions.

**Do not write on the question paper.**

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**QUESTION ONE**

- a) Evaluate four objectives of financial statements (10 marks)
- b) The following two financial statements will be used in calculation of ratios to determine business performance. The figures are in millions.

**BRIDGEVIEW COMPANY LTD**

**STATEMENT OF FINANCIAL POSITION AS AT 31<sup>st</sup> DECEMBER**

	<b>2020</b>	<b>2021</b>
<b>Non-current Assets</b>		
Net plant and equipment	2731	2880
<b>Current assets</b>		
Cash	84	98
Accounts receivables	165	188
Inventory	393	422
Total	<u>642</u>	<u>708</u>
<b>Total assets</b>	<u><b>3373</b></u>	<u><b>3588</b></u>

**Liabilities and owners' equity****Current liabilities**

Accounts payable	312	344
Notes payable	231	196
Total	<u>543</u>	<u>540</u>
Long term debt	531	457

**Owners' equity**

Common stock and paid-in surplus	500	550
Retained earnings	1799	2041
<b>Total</b>	<u>2299</u>	<u>2591</u>
<b>Total liabilities and equity</b>	<u>3373</u>	<u>3588</u>

**Income statement for 2011**

Sales	2311
Cost of goods sold	1344
Depreciation	276
Earnings before interest and Tax	691
Interest paid	141
Taxable income	550
Taxes (34%)	187
Net income	363
Dividends	<u>121</u>
Retained earnings	<u>242</u>

Assume also that 33 million shares were outstanding at the end of 2010 and 2011. Market price per share is ksh 88.

Required: calculate the key ratios the financial statements above and state the importance of the ratios calculated.

- i)* Current ratio. (2marks)
  - ii)* Quick (acid test ratio) (2marks)
  - iii)* Cash ratio (2marks)
  - iv)* Net working capital to total assets (2marks)
  - v)* Debt-equity ratio (2marks)
  - vi)* Profit margin (2marks)
- c) In the context of the International Accounting Standards Board's framework for the preparation and presentation of financial statements, identify and briefly explain any four qualitative characteristics of financial statements. (8marks)



4. Allowance for doubtful debts to be adjusted to Sh. 300,000
5. Irrevocable debts amounting to Sh. 50,000 to be written off
6. Insurance amounting to Sh.600,000 had been paid to for a period of one year ending 31<sup>st</sup> October 2020
7. Provision of accrued debenture interest and preference dividends are to be made
8. Corporate tax for the year is estimated at Sh. 1,750,000
9. A final dividend of 10% was declared

**Required:**

- i. Income statement for the year ended 31<sup>st</sup> July 2020 (7 marks)
- ii. Statement of Financial Position (8 marks)
- iii. Give a face value interpretation of the above financial statements (5 marks)

**Question Three**

- a. Explain the benefits and limitations of ratio analysis (8marks)
- b. Briefly highlight six sources of information for analysis ( 6marks)
- c. Define and discuss the motives for creative accounting. (6marks)

**Question Four**

- a) Briefly explain any four tools of financial statement analysis (8Marks)
- b) ABC Ltd Statement of Profit and Loss.

Particulars	31st March, 2024 KSH	31st March, 2023 KSH
I. Income		
Revenue from Operations (Net Sales)	12,500,000	10,000,000
II. Expenses		
Purchases of Stock-in-Trade	8,700,000	7,200,000
Change in Inventories of Stock-in-Trade	(200,000)	300,000
Depreciation and Amortisation Expenses	300,000	200,000
Other Expenses	500,000	300,000
Total	9,300,000	8,000,000

III. Profit before Tax (I - II)	3,200,000	2,000,000
IV. <i>Less:</i> Income Tax	960,000	600,000
V. Profit after Tax (III - IV)	2,240,000	1,400,000

Required:

From the above Statement of Profit and Loss, prepare Common-size Statement of Profit and Loss and comment on your results. (12Marks)

**Question Five**

- a) Describe the stages involved in constructing a financial model (10marks)
- b) Describe the stages involved in Financial Statement Analysis (10 marks)