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UNIVERSITY EXAMINATIONS 2024/2025

THIRD YEAR FIRST SEMESTER EXAMINATION FOR DEGREE OF BACHELOR OF
COMMERCE

BFC 3330: FINANCIAL STATEMENT ANALYSIS

DATE: JANUARY 2025

TIME: 2 HOURS

INSTRUCTIONS: Answer Question ONE and any other TWO questions.

QUESTION ONE (30 MARKS)

- (a) Discuss Four major purposes of financial analysis (4marks)
- (b) The following categories of people are recognized as users of the information contained in financial statements:
- Government Agencies.
 - Investors
 - Lenders
 - Employees

For each of the above users of financial statements, identify the kind of information they may require, why they require it and the decisions they make from that information.

(8 marks)

- c) The following is a balance sheet of Miss Karambu Ltd as at 31st Dec 2022 and 2023.

Balance Sheet

Details	2023	2022
Cash	82,000	30,000
Accounts receivable	120,000	100,000
Inventory (Stock)	87,000	82,000
Land	101,000	90,000
Equipment	110,000	100,000
Accumulated		



Depreciation	(17,000)	(15,000)
Total Assets	483,000	387,000
Account payable	76,000	60,000
Wages payable	33,000	17,000
Notes payable	50,000	50,000
Ordinary share capital	170,000	160,000
Retained earnings	154,000	100,000
Total liabilities	483,000	387,000

Required:

Carry out a comparative/vertical analysis for the company's balance sheet and interpret the results. (10 marks)

- d) from the following data relating to Ms Neema for the year 2020 to 2023, calculate trend percentages (taking 2020 as base year) and interpret the results (8marks)

	2020 Amt.sh.	2021 Amt.sh.	2022 Amt.sh.	2023 Amt.sh.
Net sales	200,000	190,000	249,000	260,000
Less: Cost Of Goods Sold	120,000	117,800	139,200	145,600
Gross profit	80,000	72,000	100,800	114,400
Less: Expenses	20,000	19,400	22,000	24,000
Net profit	60,000	52,800	78,800	90,400

QUESTION TWO (20 MARKS)

- a) Discuss the main advantages of ratio analysis. (5 marks)
- b) Munyah Ltd. is an expanding company and the following accounts relate to its operations for the years 2021 and 2022:

Profit statement for the year ended 30 June

	2021 Sh.	2022 Sh.
Sales	3,000,000	4,800,000



Less: cost of goods sold	1,650,000	2,700,000
Gross profit	1,150,000	2,100,000
Less: trading expenses	675,000	825,000
Trading profit	675,000	1,275,000
Less: Debenture interest	37,500	37,500
Net profit before taxation	637,500	1,275,000
Less: Corporation tax	240,000	480,000
Net profit after taxation	397,500	757,500
Less: Ordinary share dividend	187,500	262,500
Undistributed profit for the year	210,000	495,000

	Balance sheet as at 30 June 2021		2022	
	Sh.	Sh.	Sh.	Sh.
Fixed assets at cost	1,500,000		2,100,000	
Less: Depreciation	<u>300,000</u>	1,200,000	<u>375,000</u>	1,725,000
Current assets:				
Stock	600,000		825,000	
Debtors	375,000		525,000	
Cash	<u>120,000</u>		<u>1,350,000</u>	
Less: Current liabilities		1,095,000		
Creditors	217,500		300,000	
Taxation	240,000		480,000	
Proposed dividend	187,500		262,500	
Bank overdraft	<u> </u>		<u>97,500</u>	
		<u>(645,000)</u>		<u>(1,140,000)</u>
		<u>1,650,000</u>		<u>1,935,000</u>
Fixed by;				
Ordinary share capital (Authorised and issued)		750,000		750,000
Undistributed profits		525,000		1,020,000
10% debentures		<u>375,000</u>		<u>165,000</u>
		<u>1,650,000</u>		<u>1,935,000</u>



Required;

- i. Compute the following six accounting ratios for both 2021 and 2022 (which you feel would be of particular value in assessing the Profitability and Liquidity of Munyah Ltd.
 - a) Current ratio
 - b) Quick ratio
 - c) Gross Profit margin
 - d) Net Profit Margin
 - e) Return on investments (ROTA)
 - f) Return on Capital employed (12 marks)
- ii. Comment on the current position of the company with the aid of the accounting ratios computed in (i) above and any other information that you consider to be relevant.
(3 marks)

QUESTION THREE (20 MARKS)

- a) A business entity may report profits in its financial statements and yet experience declining balances of the cash at hand and at bank. Explain how this is possible.
(4 marks)
- b) Discuss ways in which a firm can deal with financial distress (4 marks)
- c) Discuss the most common financial acts of manipulation of financial statements (Creative accounting) (4marks)
- d) Differentiate between absolute and percentage change. (4 Marks)
- e) Discuss the reasons why a company would not wish to distribute all its profits to its shareholders. (4 marks)

QUESTION FOUR (20 MARKS)

- a) Identify with reasons, one party who may be interested in each of the following ratios:
 - i. Current ratio (2 marks)
 - ii. Net profit margin (2 marks)
 - iii. Stock turnover (2 marks)
- b) The following are the income statements of ABC Company for the year ending 31st December 2022 and 2023. Prepare a common size income statement for the concern and give interpretation thereof. (14 marks)

	022 mt. (sh.)	2023 mt. (sh.)
Sales	500,000	700,000
Miscellaneous income	20,000	15,000
	520,000	715,000
Expenses		
Cost of sales	330,000	510,000
Office expenses Interest	20,000	30,000
Selling expenses	25000	30,000
	30,000	40,000
	405,000	610,000
Net profit	115,000	105,000
	520,000	715,000

QUESTION FIVE (20 MARKS)

The following two financial statements were published by Magunandu company Ltd, for the two years 2022 and 2023

MAGUNANDU CO LTD
STATEMENT OF FINANCIAL POSITION AS AT 31ST DECEMBER

	2022	2023
	KSHS	KSHS
	"000"	"000"
Non-current assets		
Net plant and equipment	2,731	2,880
Current asset		
Cash	84	98
Accounts receivable	165	188
Inventory	393	422
Total	<u>642</u>	<u>708</u>
Total assets	<u>3373</u>	<u>3588</u>
<u>Liabilities and owners equity</u>		

Accounts payable	312	344
Notes payable	231	196
Total	543	540
Long term debt	531	457
Owner equity		
Ordinary share capital	500	550
Retained earnings	1799	2041
Total	2299	<u>2591</u>
Total liabilities	3373	3588

INCOME STATEMENT FOR 2023

	Shs
	"000"
Sales	2311
Cost of goods sold	1344
Depreciation	276
Earnings before Interest and tax	691
Interest paid	14
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Taxable income	550
Taxes (34%)	187
Net income	363
Dividends	121
Retained earnings	242

Additional information

- i. Assume that the company had 33 million shares outstanding at the end of 2022 and 2023 market price per share was sh. 88.

Required

- a) From the above information comment on the company's performance using DU-PONT analysis. (5 marks)
- b) Using the financial statements 2023 of Mangunandu co ltd calculate the Z-score for the company and interpret (15 marks)

