



PIONEER INTERNATIONAL UNIVERSITY

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UNIVERSITY EXAMINATIONS

BACHELOR OF COMMERCE 3.2 AND 4.1

UNIT CODE: FNCE 3110

UNIT NAME: FINANCIAL STATEMENT ANALYSIS

SEMESTER: MAY - AUGUST 2022

ACADEMIC YEAR: 2021/2022

DATE: JULY 2022

TIME: 2:00 HOURS

INSTRUCTIONS: Answer question one (30 marks) and any other two

SECTION A: [30 MARKS]

QUESTION ONE

- a) Discuss 4 main uses and limitations of ratio analysis (6 Marks)
- b) Define '*financial statement analysis*' and briefly explain the overall objective of financial statement analysis. (2 Marks)
- c) There are four basic financial statements from which an analyst gets his information. Name and briefly discuss these statements. (8 Marks)
- d) How can a firm have a healthy current ratio and still unable to meet its current obligations as they fall due? (6 Marks)
- e) Differentiate between the following sets of terms
 - i. Business analysis and financial statement analysis (4 Marks)
 - ii. Univariate model and multivariate model of distress prediction [4 Marks]

SECTION B:

QUESTION TWO-

a) Differentiate between vertical analysis and horizontal analysis (4 marks)

b) The summarized financial statements of Beta Enterprises Ltd. for the year ended 30 September 2019 and 2020 were as follows:

Income statements for the year ended 30 September

	2019 Shs 000	2020 Shs 000
Sales	60,000	80,000
Cost of sales	(45,000)	(57,600)
Gross profit	15,000	22,400
Operating expenses	(5,000)	(7,400)
Profits from operations	10,000	15,000
Interest payable	(1,000)	(2,000)
Net Profit	9,000	13,000

Statement of Financial position as at 30th September

	2019 Shs 000	2020 Shs 000
Non-current assets at cost	70,000	72,000
Accumulated depreciation	(17,500)	(10,800)
	52,500	61,200
Current assets:		
Stock	18,000	20,000
Trade debtors	20,000	21,000
Prepaid expenses	4,000	3,800
	42,000	44,800
Total Assets	94,500	106,000

Equity and Liabilities:

Capital and reserves:		
2,000,000 ordinary shares of Shs. 20 each	40,000	40,000
Share premium	5,500	5,500
General reserves	8,000	9,000
Retained earnings	7,000	8,500
	60,500	63,000
Long-term liability:		
10% debentures	10,000	20,000
Current liabilities:		
Trade creditors	16,000	17,000
Bank overdraft	8,000	6,000
	24,000	23,000
Total equity and liabilities	94,500	106,000