



OFFICE OF THE DEPUTY VICE CHANCELLOR
ACADEMICS, RESEARCH AND STUDENT AFFAIRS

UNIVERSITY EXAMINATIONS

2024/2025 ACADEMIC YEAR

FOURTH YEAR SECOND SEMESTER MAIN EXAMINATION

FOR THE DEGREE OF BACHELOR OF BUSINESS MANAGEMENT

COURSE CODE: BBM 314
COURSE TITLE: FINANCIAL STATEMENT ANALYSIS
DATE: 10TH APRIL 2025 **TIME:** 8 TO 11 A.M

INSTRUCTION TO CANDIDATES

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MAIN EXAM

BBM 314: FINANCIAL STATEMENT ANALYSIS

STREAM: BBM

DURATION: 3 Hours

INSTRUCTION TO CANDIDATES

- i. Answer Question **ONE** and any other **TWO** questions
- ii. Maps and diagrams should be used whenever they serve to illustrate the answer
- iii. Do not write on the question paper.

QUESTION ONE

(a) Briefly explain how the International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) secure the analysis and reporting of financial information. (10 marks).

(b) Umeme Company Ltd had the following balance sheets and Income statements over the years 2022, 2023 and 2024. The figures are in thousands.

Statement of
financial
Position as at: Shillings '000'

Particulars	Shillings '000'		
	2022	2023	2024
Cash	618	497	305
Receivables	2,064	3,014	4,621
Inventories	2,435	2,817	3,590
Current Assets	5,117	6,328	8,516
Net Fixed Assets	2,895	4,912	4,955
Total Assets	8,604	12,746	13,982
Payables	2,055	4,114	4,752
Accruals	503	722	780
Short term bank loan	405	1,120	1,350
Current Liabilities	2,963	5,956	6,882
Long term debt	741	1,490	1,400
Shareholder's equity	4,900	5,300	6,700
Total Liability and Shareholder's equity	8,604	12,746	14,982

**Income Statements for
period ended:**

Particulars	2022	2023	2024
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Sales	12,180	16,700	18,400
Cost of goods sold	8,780	12,800	14,080
Selling, general and administrative expenses	2,315	2,520	2,850
Interest	112	280	312
Profit before taxes	973	1,100	1,158
Taxes	360	420	505
Net Profit	613	680	653

Required;

Using common-size analyses discuss the performance of the company for the years 2022 - 2024.
(10 Marks)

c) The Return on Equity (ROE) of ABC Ltd for the 12-year span is shown as follows:

YEAR	ROE (%)	YEAR	ROE (%)	YEAR	ROE (%)	YEAR	ROE (%)
1	2.2	4	3.2	7	8.2	10	5.8
2	5.0	5	2.9	8	3.8	11	9.1
3	7.9	6	5.2	9	3.2	12	4.1

Required;

Perform a time series analysis to establish the performance trend for the 12 -year span and commend on your analysis.

(10 Marks)

QUESTION TWO

Sasini Tea and Coffee Ltd 2023 and 2024 are shown as follows:

Sasini Tea & Coffee Income statement as at 31-12-23 & 24

	2023	2024
Cash	72,000	65,000
Accounts receivable	439,000	328,000
Inventories	894,000	813,000
Total current assets	1,405,000	1,206,000
Land & buildings	238,000	271,000
Machinery	132,000	133,000
Other fixed assets	61,000	57,000
Total	1,836,000	1,667,000
Accounts payable	432,000	409,500
Accruals	170,000	162,000
Total; Current liabilities	602,000	571,500
Long-term debt	404,290	258,898

Common stock	575,000	575,000
R/E	254,710	261,602
Total liabilities & equity	1,836,000	1,667,000

Sasini Tea & Coffee Ltd Income statement extract for years ending 31-12-23 & 2024.

	2023	2024
Sales	4,240,000	3,635,000
Gross profit	560,000	655,000
Depreciation	159,000	154,500
Other expenses	236,320	213,550
Miscellaneous	134,000	127,000
EBT	30,680	159,950
Taxes (40%)	12,722	63,980
Net income	18,408	95,970

Required;

Assess the performance of the firm in terms of the following:

- a) The liquidity position of the firm (5 marks)
- b) Financial Leverage of the firm (5 marks)
- c) Receivable days turnover (5 marks)
- d) Payable days turnover (5 marks)

QUESTION THREE

- (a) Highlight the limitations of ratio analysis in predicting business failure. (10 marks)
- (b) Express Kenya Ltd. had sales of shs. 200,000, 000 a net income of Shs. 15,000,000 for year ending 31st December 2024, and the following balance sheet:

	Shs. 000		Shs. 000
Cash	10,000	Accounts payable	30,000
Receivables	50,000	Accruals	20,000
Stock	150,000	Long- term debt	40,000
Net fixed assets	90,000	Retained Earnings	10,000
		Common equity	200,000
Total assets	300,000	Total liability & equity	300,000

Other data; market value of equity = 250,000,000

Required; Using the Edward Altman model of $Z\text{-Score} = 1.2X_1 + 1.4X_2 + 3.3X_3 + 0.6X_4 + 1.0X_5$, describe whether the firm is in financial distress or not? (10 Marks)

QUESTION FOUR

- (a) Looking beyond ratios, state and explain FIVE qualitative factors that might diagnose business failure. (10 Marks)
- (b) State and explain some of the options available to businesses in dealing with financial distress. (10 Marks)

QUESTION FIVE

a) The following is the balance sheet of Eldoret Steel Mills Ltd as at 31st December, 2024.

	<u>Shillings '000'</u>
Net Fixed Assets	300
Current Assets	<u>100</u>
	400
Financed by:	
Ordinary Share Capital	100
<u>Retained Earnings</u>	70
10% debentures	150
Trade Creditors	50
Accrued Expenses	<u>30</u>
	400

Additional Information.

1. The sales for the year 2024 amounted to shillings 500,000. The sales will increase by 15% during the year 2025 and 10% during the year 2026.
2. The after tax return on sales is 12% which shall be maintained in future.
3. The Company's dividend payout ratio is 80%. This is to be maintained during the forecasting period.
4. Additional financing from external sources will be effected through the issue of Commercial paper by the company.

Required:

- a) Determine the amount of external finance for 2 years up to 31st December, 2026 (10Marks)
- b) Evaluate the ingredients of financial planning. (10 marks)