



GARISSA UNIVERSITY

UNIVERSITY EXAMINATION **2017/2018** ACADEMIC YEAR **THREE**
SECOND SEMESTER EXAMINATION

SCHOOL OF BUSINESS AND ECONOMICS

FOR THE DEGREE OF BACHELOR OF BUSINESS MANAGEMENT

COURSE CODE: BBM 314

COURSE TITLE: FINANCIAL STATEMENTS ANALYSIS

EXAMINATION DURATION: 3 HOURS

DATE: 11/04/18

TIME: 2.00-5.00 PM

INSTRUCTION TO CANDIDATES

- The examination has **SIX (6)** questions
- Question **ONE (1)** is **COMPULSORY**
- Choose any other **THREE (3)** questions from the remaining **FIVE (5)** questions
- Use sketch diagrams to illustrate your answer whenever necessary
- Do not carry mobile phones or any other written materials in examination room
- Do not write on this paper

This paper consists of **THREE (3)** printed pages

please turn over



QUESTION ONE (COMPULSORY)

- (a) Explain the meaning of financial statements analysis. **[2 marks]**
- (b) What do we mean by financial ratios **[2 marks]**
- (c) State why financial statements have to be analyzed **[7 marks]**
- (d) Describe the techniques of carrying out financial statements analysis **[14 marks]**

QUESTION TWO

- (a) Distinguish between horizontal common-size analysis and vertical common-size analysis. **[4 marks]**
- (b) Consider the PK Company, which reports the following financial information: (amounts given in USD).

year	2008	2009	2010	2011	2012	2013
cash	400	404.00	408.04	412.12	416.24	420.40
inventory	1580.00	1627.40	1676.22	1726.51	1778.3	1831.65
Accounts receivable	1120.00	1142.40	1165.25	1188.55	1212.32	1236.57
Net plant and equipment	3500.00	3640.00	3785.60	3937.02	4094.5	4258.29
intangibles	400.00	402.00	404.01	406.03	408.06	410.10
Total assets						

- i. Fill out the totals and create the vertical common-size analysis for the CS Company’s assets. **[6 marks]**
- ii. Create the horizontal common-size analysis for CS Company’s assets, using 2008 as the base year. **[5 marks]**



QUESTION THREE

- (a) When in a given company's office, you hear the finance department workers talking about turnover. What comes to your mind? [2 marks]
- (b) Determine how the following are worked out:
- i. Inventory turnover [1 mark]
 - ii. Receivables turnover [1 mark]
 - iii. Working capital turnover [1 mark]
 - iv. Total asset turnover [1 mark]
- (c) describe the following:
- i. Current ratio [2 marks]
 - ii. Liquidity [2 marks]
 - iii. Solvency [2 marks]
 - iv. Quick ratio [2 marks]
 - v. Cash ratio [1 mark]

QUESTION FOUR

- (a) Highlight the requirements of effective use of financial ratios. [6 marks]
- (b) Give a detailed exposition on profitability ratios [9 marks]

QUESTION FIVE

- (a) Explain the characteristics of a good financial analyst [5 marks]
- (b) Highlight challenges faced in financial analysis and how to overcome them [10 marks]

QUESTION SIX

Write short notes on the following:

- i. Profitability margin [3 marks]
- ii. Return on assets [3 marks]
- iii. Market value measures [3 marks]
- iv. Price earnings ratio [3 marks]
- v. The du point identity [3 marks]

