GRETSA UNIVERSITY – THIKA

UNIVERSITY EXAMINATIONS

JANUARY – APRIL 2026 SEMESTER

BACHELOR OF ARTS IN PUBLIC ADMINISTRATION AND GOVERNANCE

COURSE CODE: BCFI 303

COURSE TITLE: FINANCIAL STATEMENT ANALYSIS

DATE:10 APRIL 2026 **TIME: 2 HOURS**

INSTRUCTIONS TO CANDIDATES

1. SECTION A IS **COMPULSORY.**
2. SECTION B: ANSWER ANY OTHER **TWO** QUESTIONS.
3. **DO NOT** WRITE ANYTHING ON THIS QUESTION PAPER AS IT WILL BE AN EXAM IRREGULARITY.
4. ALL ROUGH WORK SHOULD BE AT THE BACK OF YOUR ANSWER BOOKLET AND CROSSED OUT.

CAUTION: *All exam rooms are under CCTV surveillance during the examination period*

SECTION A: COMPULSORY

QUESTION ONE [30 MARKS]

a) The following financial statements relate to the Exotica Company:

Assets	**Shs.**	**Liabilities & Net worth**	**Shs.**
Cash	28,500	Trade creditors	116,250
Debtors	270,000	Notes payable (9%)	54,000
Stock	649,500	Other current liabilities	100,500
Total current assets	948,800	Long term debt (10%)	300,000
Net fixed assets	285,750	Net worth	663,000
	1,233,750		**1,233,750**

Income Statement for the year ended 31 March 2026

	Shs.
Sales	1,972,500
Less cost of sales	1,368,000
Gross profit	604,500
Selling and administration expenses	498,750
Earnings before interest and tax	105,750
Interest expense	34,500
	71,250
Estimated taxation (40%)	28,500
Earnings after interest and tax	**42,750**

Required:

Calculate:

i. Inventory turnover ratio; **[3 Marks]**

ii. Times interest earned ratio; **[3 Marks]**
iii. Total assets turnover; **[3 Marks]**
iv. Net profit margin **[3 Marks]**

(Note: Round your ratios to one decimal place)

b) The ABC Company operates in an industry whose norms are as follows:

Ratio	**Industry Norm**
Inventory turnover	6.2 times
Times interest earned ratio	5.3 times
Total assets turnover	2.2 times
Net profit margin	3%

Required:

Comment on the revelation made by the ratios you have computed in part (a) above when compared with the industry average. **[6 Marks]**

c) Explain six advantages of ratio analysis in financial statement analysis **[6 Marks]**

d) Explain the uses of the following ratios:

i. Current ratio **[2 Marks]**
ii. Acid Test Ratio **[2 Marks]**
iii. Debt Ratio **[2 Marks]**
iv. Inventory Turnover **[2 Marks]**
v. Gross Profit Margin **[2 Marks]**

SECTION B: ANSWER ANY TWO QUESTIONS

QUESTION TWO [20 MARKS]

The Altman formula for prediction of bankruptcy is given as follows:

Z score = $\mathbf{1.2X_1 + 1.4X_2 + 3.3X_3 + 1X_4 + 0.6X_5}$

Where: $\mathbf{X_1}$ = Working capital/Total assets

$\mathbf{X_2}$ = Retained earnings/Total assets

$\mathbf{X_3}$ = Earnings before interest and tax/Total assets

$\mathbf{X_4}$ = Sales/Total assets

$\mathbf{X_5}$ = Market value of Equity/Liabilities

In this model, a Z-score of 2.7 or more indicates non-failure and a Z-score of 1.8 or less indicates failure.

You are provided with the following information in respect of four listed companies.

	Working capital	**Retained earnings**	**Earnings before interest and tax**	**Market value of equity**	**Total assets**	**Liabilities**	**Sales**
	Sh.'000'	**Sh.'000'**	**Sh.'000'**	**Sh.'000'**	**Sh.'000'**	**Sh.'000'**	**Sh.'000'**
A Ltd	4,000	60,000	10,000	20,000	200,000	120,000	200,000
B Ltd	2,000	20,000	0	5,000	100,000	80,000	120,000
C Ltd	6,000	20,000	-30,000	48,000	800,000	740,000	900,000
D Ltd.	40,000	200,000	30,000	100,000	1,800,000	1,000,000	2,000,000

Required:

a) The Z-Score for each of the companies. Comment on the results obtained. **[8 Marks]**
b) It has been suggested that other ratios ought to be incorporated into Altman's bankruptcy prediction model. What is your opinion on this? **[3 Marks]**
c) List nine indicators of possible business failure. **[9 Marks]**

QUESTION THREE [20 MARKS]

a) What do you understand by financial distress? Discuss five internal factors contributing to the firm's financial distress. **[10 Marks]**
b) Discuss six revival measures that a firm can put in place to reverse industrial sickness **[6 Marks]**
c) Explain four weaknesses of ratio analysis in financial statements **[4 Marks]**

QUESTION FOUR [20 MARKS]

a) Explain the following types of financial statement analysis

i. Internal analysis
ii. External analysis
iii. Dynamic analysis
iv. Statistic or vertical analysis **[8 Marks]**

b) The concept of Cost –Value –Profit (CVP) works well when a number of assumptions are made. Outline eight assumptions of CVP **[8 Marks]**

c) Explain four reasons why ratio techniques are necessary when prequalifying an organization for a loan facility **[4 Marks]**

QUESTION FIVE [20 MARKS]

a) What do you understand by financial distress? Discuss five external factors contributing to the firm's financial distress. **[10 Marks]**

b) Explain four reasons why a company would be concerned with the cash flow statement analysis **[4 Marks]**

c) Outline six qualities of a good financial statement analyst **[6 Marks]**