Scott Christian
UNIVERSITY

SCHOOL OF PROFESSIONAL STUDIES

BACHELOR OF BUSINESS ADMINISTRATION

UNIT CODE/NAME: BAF 401: FINANCIAL MODELING AND FORECASTING

September- December 2019/2020 End Semester Exam - Time: 2 Hours

Instructions: Answer Question ONE (Compulsory) and any other TWO questions.

QUESTION ONE

When designing a financial model, it is important to clearly analyse the sales and profits levels depicted in the financial statements. These alone however may not be adequately reflecting that the business in stable. The case below was presented to you as a financial expert to advice accordingly. Two medium sized companies Okoa Ltd and Fanaka Ltd are similar and operating in the same business environment. They are in manufacturing sector.

Statement of financial position for company Okoa Ltd and Fanaka Ltd as at 31st Dec, '16

	Okoa (Kes)		Fanaka Ltd (Kes).	
Fixed Assets		30,000.00		60,000.00
Current assets				
Inventory	30,000.00		50,000.00	
Accounts receivable	45,000.00		9,000.00	
Bank	15,000.00		1,000.00	
		90,000.00		60,000.00
Total assets		120,000.00		120,000.00
Current liabilities: Accounts payable	(30,000.00)		(30,000.00)	
Net Assets	90,000.00		90,000.00	
Capital				
Opening capital	80,000.00		80,000.00	
Add Net profit		36,000.00		36,000.00
		116,000.00		116,000.00
Less- drawings	(26,000.00)		(26,000.00)	
	90,000.00		90,000.00	

Additional information:

- The companies had opening inventory at the start of the period as follows; Kes. 30,000.00, for Okoa Ltd and Kes. 40,000.00 for Fanaka Ltd.
- For the period, they both achieved the same level of sales and gross profit as Kes. 144,000.00 and Kes. 48,000.00 respectively.

Required:

a) Briefly discuss the importance of ratio analysis in financial forecasting. **(5 Marks)**

b) Calculate, compare and interpret for the two companies:
Current ratio, Acid test ratio, inventory turnover ratios **(9 Marks)**

c) Discuss the importance of the following ratios to the business :-
Efficiency ratio and liquidity ratios **(8 Marks)**

d) Clearly discuss at least four limitations of financial statements with specific reference to the case given above. **(8 Marks)**

QUESTION TWO

You are a business advisor for Frontline Enterprises Ltd, a company involved in transport. The company has operated for six years and in the last two years, it has been facing financial challenges. The management have sought your expertise in dealing with these challenges.

a) You have decided to develop a financial model for Frontline Enterprises Ltd, clearly discuss the importance of a financial model to Frontline Ltd **(6 Marks)**

b) Briefly discuss the features of a good financial model. **(5 Marks)**

c) Bring out at least two sectors in the economy where financial modelling is highly preferred and why. **(4 Marks)**

QUESTION THREE

Finance mangers are expected to advice their organizations on the issues of working capital management and cash flows. This is especially important if the organization has to meet current obligations as they fall due.

a) Clearly discuss at least three sections of a cash flow statement and their relevance in the business. **(9 Marks)**

b) Briefly discuss what cash flows brings out that makes if more superior a financial statement as opposed to another financial statements. **(6 Marks)**

QUESTION FOUR

In financial forecasting the main objective is to ensure that the future prospect of the firm is guaranteed. This brings to fore the need for a good financial model parameters.

a) Clearly explain the importance of financial model parameters **(4 Marks)**

b) Discuss some of the decisions executive make using a financial model **(5 Marks)**

c) Some of the sections of a good financial model are supporting schedules, sensitivity analysis and charts and graphs. Briefly discuss the significance of each of these sections in bring out a perfect financial model. **(6 Marks)**

QUESTION FIVE

An expert in financial modelling has to be aware of the various financial models available.

a) Briefly discuss the three statement model, discounted cash flow model and merger and acquisition model. **(6 Marks)**

b) Discuss the difference between forecasting and budgeting in financial modelling. **(4 Marks)**

c) Clearly discuss the importance of budgeting models **(5 Marks)**