PAN AFRICA CHRISTIAN UNIVERSITY

BACHELORS OF COMMERCE

END OF TERM EXAMINATION

DEPARTMENT: BUSINESS

COURSE CODE: CFN401

COURSE TITLE: FINANCIAL MODELLING & FORECASTING

ROYSAMBU CAMPUS - DAY

EXAM DATE: MONDAY

TIME: 8.00AM – 11.00AM

INSTRUCTIONS

- This examination script consists of **six (6)** questions.
- Answer question ONE and ANY other three Questions.
- Show all your workings
- Read all questions carefully before attempting.

Write your **student number** on the answer booklet provided.

QUESTION ONE

The following details of income statement for the year ended 31 December 2023 and 2024 for HATI Company have been provided:

	(Sh'000')	(Sh'000')
Sales	4000	5,000
Cost of sales	1900	2,300
Gross profit	2100	2,700
Expenses	1800	2,500
Net profit	300	200

Required:

a) Explain the importance of financial analysis in a manufacturing firm (2marks)
b) Conduct a horizontal analysis on sales, cost of sales and expenses on excel spreadsheet (4marks)
c) Forecast sales, cost of sales, expenses and hence the profits/loss for 31 December 2025, on excel spreadsheet (4marks)

QUESTION TWO

Using a relevant example, distinguish between the following terms:

a) Financial forecasting and financial modeling (3marks)
b) A budget and a forecast (3marks)
c) Vertical and horizontal analysis (4marks)

QUESTION THREE

a) Explain any two benefits of financial forecasting in an agricultural sector (4marks)
b) Using relevant examples, describe any two types of financial models (6marks)

QUESTION FOUR

a) Using relevant examples, discuss any two types of operational budgets (4marks)
b) Citing examples from a manufacturing business, describe three causes of cash flows deficits (6marks)

QUESTION FIVE

Describe the forecasting process citing examples from hospitality sector (10marks)

QUESTION SIX

a) Distinguish between sensitivity analysis and scenario analysis (2marks)

b) The following financial data for the month of February 2025 for ABC Company has been provided:

	February (Sh'000')	March (Sh'000')
Receipts:		
Cash sales	1,200	
Debtors	800	
Expenditure:		
Purchases of materials	600	
Wages & salaries	500	
Bank interest	120	
Acquisition of computers	275	
Net cash flow	505	

The company projects changes in net cash flows in the month of March within three scenarios: Boom, Stagnation, Decline as follows:

Boom -	Cash sales increase by 5%, Purchases increase by 4%
Stagnation -	Cash sales increase by 1%, Purchases decrease by 3%
Decline -	Cash sales decrease by 7%, Purchases decrease by 2%

Required:
Project the net cash flows for the month of March under each scenario, on an excel spreadsheet (6marks)