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**JOMO KENYATTA UNIVERSITY OF AGRICULTURE AND TECHNOLOGY**

**UNIVERSITY EXAMINATIONS 2013/2014**

**YEAR 4 SEMESTER 2 EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE**

**HBC 2219: FINANCIAL FORECASING AND MODELING**

**DATE: DECEMBER 2013 TIME: 2 HOURS**

**INSTRUCTIONS: ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS**

**QUESTION ONE**

1. Calculate the trend percentages from the following figures of your Ltd. [5 marks]

**Year 2011 2010 2009 2008 2007 2006**

Sales ($) 450,000 360,000 330,000 320,000 312,000 300,000

Net income($) 22,950 14,550 21,420 19,200 15,600 15,000

1. The following information relates to data extracted from the books of Jay Ltd. for the year 2009 – 2011. The figures are in thousands. Prepare and interpret the items by using comparative analysis.

**Year 2011 2010 2009**

Net sales ($) 600 500 400

Net income ($) 36 40 50

1. Interpret the implications of your output for each company in a $b above [5 marks]
2. Explain the need for financial statement analysis. [3 marks]
3. What are the limitations of financial statement analysis in forecasting [4 marks]
4. Financial models always tell a story; describe the story and explain the various uses of financial models. [8 marks]

**QUESTION TWO**

1. Describe the various facets of financial planning process. [10 marks]
2. Discuss in detail the three component of a financial planning model. [10 marks]

**QUESTION THREE**

1. Forecasting methods depend largely on what data are available. Describe the two main methods of forecasting and the conditions that must be satisfied in both. [4 marks]
2. Define sensitivity analysis. [4 marks]
3. Differentiate between financial planning and financial forecasting [6 marks]
4. Describe the various steps involved in financial planning [6 marks]

**QUESTION FOUR**

1. Name and explain the various steps followed in a financial forecasting task. [10 marks]
2. Given that a firm is well within its current ratio and debt ratio covenants and that interest rates are expected to decrease would the firm prefer to use short or long-term financing for its external needs and why? [4 marks]
3. After formulating baseline proforma financial statements a firm determines the amount of interest bearing debt it will need to continue growing its business. Describe the steps involved in using iteration to reformulate financial statements after taking into account interest expenses. [6 marks]

**QUESTION FIVE**

1. Why is it important for an analyst to understand the reciprocal relationship between unit price and volume when forecasting sales? [6 marks]
2. Describe the two main financial goals of a firm [5 marks]
3. Define the following terms as used in financial forecasting and modelling [9 marks]
4. Hypothetical assumption
5. Forecast
6. Projection.