

The
Management
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UNDERGRADUATE UNIVERSITY EXAMINATIONS
SCHOOL OF MANAGEMENT AND LEADERSHIP
DEGREE OF BACHELOR OF COMMERCE

FIN 424: FINANCIAL ANALYSIS AND VALUATION

DATE: 27TH JULY 2026

DURATION: 2 HOURS

MAXIMUM MARKS: 70

INSTRUCTIONS:

1. Write your registration number on the answer booklet.
2. **DO NOT** write on this question paper.
3. This paper contains **SIX (6)** questions.
4. Question **ONE** is compulsory.
5. Answer any other **THREE** questions.
6. Question **ONE** carries **25 MARKS** and the rest carry **15 MARKS** each.
7. **Write all your answers in the Examination answer booklet provided.**

QUESTION ONE

Read the Case Study below carefully and answer the questions that follow:

FINANCIAL DISTRESS - BANKRUPTCY AND LIQUIDATION

ABC Limited, a mid-sized manufacturing company, has been a major supplier of industrial equipment for over two decades. Despite steady growth in its early years, the company started experiencing financial distress due to increasing competition, rising production costs, and poor financial management. By 2020, ABC Limited had accumulated significant debt, facing declining revenues and liquidity shortages. The company struggled to meet its debt obligations, leading to delays in supplier payments and missed loan repayments. As a result, its credit rating deteriorated, making it difficult to secure additional financing.

In 2022, ABC Limited filed for bankruptcy protection under Chapter 11, aiming to restructure its debt and regain financial stability. However, after months of unsuccessful negotiations with creditors and failure to improve cash flows, the company's board decided to liquidate its assets under Chapter 7 bankruptcy proceedings. The liquidation process involved selling ABC Limited's assets—machinery, real estate, and inventory—to repay outstanding debts. Secured creditors were paid first, followed by unsecured creditors and shareholders, who received minimal or no compensation.

This case study explores the causes, implications, and lessons from ABC Limited's financial distress, highlighting key considerations in bankruptcy and liquidation proceedings.

ABC Limited faced significant financial distress due to a combination of internal mismanagement and external market pressures. One of the primary causes of its financial struggles was declining sales revenue, as increased competition eroded its market share, leading to lower profits. The company also suffered from an excessive debt burden, relying heavily on high-interest loans that strained cash flow and heightened the risk of default. Additionally, poor cash flow management exacerbated the situation, as ABC

Limited failed to maintain adequate liquidity, causing operational disruptions and difficulties in meeting financial obligations.

Compounding these challenges was ineffective cost control, with rising production costs and mismanagement of expenses further worsening profitability. The company's failure to implement strategic cost-cutting measures led to shrinking margins, making it increasingly difficult to sustain operations. Moreover, macroeconomic factors played a crucial role in its decline. Economic downturns and supply chain disruptions significantly impacted demand, making it harder for the company to recover from financial setbacks.

To address its financial struggles, ABC Limited initially filed for bankruptcy protection, aiming to restructure its debts and regain financial stability. As part of the creditor negotiation process, the company sought to renegotiate loan terms and extend repayment schedules. However, when these restructuring efforts proved unsuccessful, ABC Limited had no choice but to transition to liquidation. This meant selling off its assets, including machinery, real estate, and inventory, to generate funds for debt repayment. The debt settlement order ensured that secured creditors were given priority in recovering their funds, while unsecured creditors received limited payouts, and shareholders faced complete financial losses.

Required:

- a) Evaluate five early warning signs of financial distress as per the case study and explain and how ABC Limited could have responded differently to avoid bankruptcy. **(10 marks)**
- b) With reference to the bankruptcy process, evaluate how three different stakeholders are affected and why secured creditors receive priority in liquidation. **(6 marks)**

- c) Assess four lessons that business leaders learn from ABC Limited's failure and how companies proactively avoid financial distress.

(9 marks)

QUESTION TWO

- a) Assess four financial and strategic implications of public disclosure requirements for listed companies, and how disclosure costs impact corporate decision-making

(8 marks)

- b) A corporate bond has the following characteristics: Face Value (FV) = \$5,000; Coupon Rate = 12% annually; Yield to Maturity (YTM) = 10% and Years to Maturity = 4

- i. Determine the Present Value of Single Cashflows from Coupon Payments

(4 marks)

- ii. Determine the Total Cashflows from Coupon Payments **(3 marks)**

QUESTION THREE

- a) Examine five steps a financial analyst follows when conducting a financial statement analysis and how these steps enhance decision-making. **(5 marks)**

- b) You are a financial analyst reviewing the financial statements of XYZ Ltd., a retail company, for the year ending December 31, 2024. The company's management is interested in understanding its liquidity, profitability, and efficiency to make strategic business decisions. Below are the financial details extracted from XYZ Ltd.'s financial statements:

- Revenue: Kshs.800,000
- Cost of Goods Sold (COGS): Kshs.500,000

- Net Profit: Kshs.120,000
- Total Assets: Kshs.1,200,000
- Total Liabilities: Kshs.400,000
- Current Assets: Kshs.250,000
- Current Liabilities: Kshs.100,000
- Inventory: Kshs.90,000
- Accounts Receivable: Kshs.60,000

Required:

Using the above financial data, compute and interpret the following financial ratios for XYZ Ltd. :

- | | |
|--------------------------|------------------|
| i. Current Ratio | (3 marks) |
| ii. Quick Ratio | (3 marks) |
| iii. Gross Profit Margin | (4 marks) |

QUESTION FOUR

- a) In today's data-driven business environment, organizations are increasingly shifting between centralized and decentralized finance analytics structures. Critically evaluate the advantages and challenges of (re)centralizing finance analytics within large multinational corporations (MNCs). Discuss how this structural shift impacts decision-making, operational efficiency, and risk management. Provide relevant examples to support your analysis. **(9 marks)**

- b) Discuss three key reasons why financial forecasting is important for business sustainability. **(6 marks)**

QUESTION FIVE

- a) Assess Company A's Financial Health using Altman's Z-score given the following:

Total assets are worth \$3,500,000

Working capital of \$4,200,000.

Liabilities stand at \$5,000,000

Retained earnings amount to \$800,000.

Earnings Before Interest and Tax come to \$6,500,000.

Sales total \$8,300,000 while the market value of equity is \$7,000,000
(7 marks)

- b) Financial analysts rely on decision-ready data to make informed business and investment decisions. Evaluate the importance of decision-ready data in financial analysis and valuation, discussing its impact on accuracy, risk assessment, and strategic decision-making. Use real-world examples to support your evaluation.

(8 marks)

QUESTION SIX

- a) Assess five limitations of ratio analysis in financial analysis. **(5 marks)**

- b) Evaluate five different users that require financial statements and how they utilize this information.

(10 marks)