

The
Management
University
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UNDERGRADUATE UNIVERSITY EXAMINATIONS

SCHOOL OF MANAGEMENT AND LEADERSHIP

DEGREE OF BACHELOR OF COMMERCE

FIN 424: FINANCIAL ANALYSIS AND VALUATION

DATE: 15TH APRIL 2026

DURATION: 3 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:

LIQUIDITY CRISIS AT DELTA MANUFACTURING LTD

Delta Manufacturing Ltd is a mid-sized, publicly listed company on the Nairobi Securities Exchange. The company has historically shown strong financial performance, reporting steady profits and maintaining a high equity price. Delta employs 120 staff and has built strong investor confidence through consistent and transparent financial reporting.

Recently, Delta Manufacturing has begun to experience serious liquidity problems. Cash flow projections indicate that within the next few weeks the company may not be able to meet short-term obligations to suppliers and other non-bank creditors.

To mitigate the situation, management is considering the following strategies:

- Negotiating a reduction of outstanding non-bank liabilities by a certain percentage (e.g., 25%).
- Requesting extensions for repayment of these liabilities (e.g., 12 months).
- Restructuring bank financing, including deferring repayment of principal and reducing interest obligations.

Several creditors have threatened enforcement action for immediate payment. Delta's management seeks guidance on how to handle these obligations effectively while avoiding formal insolvency or bankruptcy proceedings

Required:

- a) Define the term financial distress and explain how it relates to Delta Manufacturing's situation. **(3 marks)**
- b) Explain the process of financial distress and identify five key issues that arise once a company begins to experience financial difficulties, using Delta Manufacturing as context. **(10 marks)**
- c) Advise Delta Manufacturing's management on how they could negotiate settlements with creditors informally to ease immediate pressure. Include possible approaches or strategies. **(6 marks)**

- d) Discuss, in the context of the efficient market hypothesis (EMH), whether Delta Manufacturing's management could have used investment or financial analysis to predict its liquidity challenges. **(6 marks)**

QUESTION TWO

- a) The balance sheet of Omega Ltd as at 31st December 2022 is as follows:

Assets	Sh.'000'	Liabilities & Equity	Sh.'000'
Net Fixed Assets	400	Ordinary Share Capital	150
Current Assets	150	Retained Earnings	70
		10% Debentures	100
		Trade Creditors	80
		Accrued Expenses	50
Total	550	Total	550

Additional Information:

- Sales in 2022: Sh.600,000, expected to grow by 12% in 2023 and 10% in 2024.
- After-tax profit margin: 10%, maintained in future.
- Dividend payout ratio: 70%, maintained.
- Any additional financing will be raised through short-term commercial paper.

Required:

Calculate the external finance requirement for 2023 and 2024. **(10 marks)**

- b) Identify five ways firms can respond to financial distress when their Z-score indicates a moderate risk of bankruptcy. **(5 marks)**

QUESTION THREE

- a) Explain five effects of financial distress on a company's operations and stakeholder relationships. **(10 marks)**

- b) Identify five main factors that influence the likelihood of a firm going bankrupt. **(5 marks)**

QUESTION FOUR

- a) Delta Ltd pays a dividend of 12% on its Sh.50 par value ordinary shares. Its required rate of return is 14%.

Required:

Calculate the value of a share assuming:

- i. No growth in dividends. **(5 marks)**
 - ii. Dividend growth of 6% per year. **(5 marks)**
- b) Explain five limitations of ratio analysis in evaluating a company's financial performance. **(5 marks)**

QUESTION FIVE

- a) Discuss five costs associated with corporate financial disclosures. **(10 marks)**
- b) Identify and explain two major tools of financial statement analysis. **(5 marks)**

QUESTION SIX

- a) Explain five prerequisites of ratio analysis that must be ensured for meaningful interpretation. **(10 marks)**
- b) Analyze the procedure for analyzing and interpreting financial statements to aid decision-making. **(5 marks)**