NATIONAL UNIVERSITY OF SCIENCE AND TECHNOLOGY
FACULTY OF COMMERCE
DEPARTMENT OF FINANCE
BACHELOR OF COMMERCE HONOURS DEGREE IN FINANCE
PART II – 2ND SEMESTER FINAL EXAMINATON – MAY 2006
FINANCIAL ANALYSIS [CFI 2202]
TIME ALLOWED: 3 HOURS 10 MINUTES

INSTRUCTIONS:

i) The Paper is 3 hours 10 minutes, of which 10 minutes is reading time.
ii) Answer **questions 1 and 2** and **any other 2 questions**.
iii) All questions carry 25 marks.
iv) Workings to be shown where applicable.

QUESTION ONE

(a) Briefly explain the importance of preparing cashflow Statement to a firm.
[10 marks]

(b) The following transactions are extracted from the furniture records of Pawandiwa Company during the year ended 31 December 2004.

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Dividend paid	26,000,000
Loan advanced to borrowers	32,500,000
Proceeds from issuing equity share	50,000,000
Proceeds from sale of fixed assets	48,750,000
Purchase of plant assets	104,000,000
Income tax paid	24,700,000
Proceeds from issuing debentures	65,000,000
Collections on loans	7,800,000
Interest paid	18,200,000
Payments to settle short-term debts	36,000,000
Proceeds from sale of Marketable securities	27,400,000
Cash paid to suppliers and employees	496,600,000
Proceeds from short-term borrowings	34,700,000
Purchase of Marketable securities	38,000,000
Interest and dividends received	12,000,000
Cash received from customers	565,500,000

REQUIRED

Prepare a Cashflow statement for the company using the direct method. **[15 marks]**

QUESTION TWO

The following information was extracted from the financial statements of the two companies during the year ended 31 December 2004.

	Orange Ltd	Greenland Ltd
	$M	$M
Total Assets	$19,776	$6,440
Retained earnings	$ 2,760	$1,520
Cost of goods sold	$11,250	$7,120
Gross margin	15%	20%
Profit before interest and tax	$ 3,620	$1,860

Current Assets	$ 2,400	$1,180
Common Stock	$ 5,858	$2,800
Total liabilities	$11,158	$2,120
Long term debt	$ 7,318	$1,140
P/E ratio	3,8 times	2,8 times

ADDITIONAL INFORMATION

i. The annual net profits after tax for the 2 companies for the year ended December 2004 were as follows:

Orange Ltd	$2,272,500,000
Greenland Ltd	$1,200,000,000

ii. The details of the two companies` common stock were as follows:

	Orange Ltd	**Greenland Ltd**
Authorised shares [numbers]	3,500,000	2,000,000
Issued and fully paid shares	1,010,000	800,000

iii. The shares of Orange Ltd are sold in the market at 25% margin above their par-values while those of Greenland Ltd are based on price earning ratio.

REQUIRED

(a) Calculate the Z-score index for each of the two companies. **[15 marks]**

(b) Comment on the corporate financial stability of each company. **[10 marks]**

QUESTION THREE

Discuss the Porters` five forces model of competitive rivalry. How relevant is it as a qualitative tool in financial analysis? **(25 marks)**

QUESTION FOUR

The Directors of companies often rely on other forms of corporate analysis in evaluating and assessing future prospects of a company.

REQUIRED
Critically examine the following methods and cite important issues addressed by them.

(a) SWOT Analysis **[9 marks]**
(b) PEST Analysis **[8 marks]**
(c) Value Chain Analysis **[8 marks]**

QUESTION FIVE
(a) Discuss the advantages and disadvantages of 2 models of forecasting company failure. **[15 marks]**
(b) Which of the two models is better in predicting company failure and why? **[10 marks]**