

UGANDA MARTYRS UNIVERSITY
FACULTY OF BUSINESS AND MANAGEMENT
DEPARTMENT OF ACCOUNTING & FINANCE
SEMESTER TWO 2018/19 EXAMINATION
BAM 2 EVENING LUBAGA

COURSE UNIT: CORPORATE FINANCE I

DATE: Monday, 7th May 2019

DURATION: Three (3) Hours

TIME ALLOWED: 02:00 pm – 05:00 pm

Instructions to Candidates:

Read the following before answering the examination questions :

- 1) Do not write anything on the question paper
- 2) Write neatly and show all workings
- 3) Every question attempted should be started on a new page
- 4) Answer any **four** Questions
- 5) Indicate the Question Number you are Answering

Question 1

- a) Give three advantages of the discounted cash flow methods of project appraisal over other appraisal methods.
(03 Marks)
- b) Explain the stages through which money can be laundered by companies and state two ways by which money laundering can be combated.
(07 Marks)
- c) Explain the term capital rationing and state the two types of capital rationing.
(03 Marks)
- d) Tedron PLC wishes to invest \$8000 in a fish project with expected cash inflows of \$4000, \$3000 and \$2000 in the 1st, 2nd and 3rd year respectively. Suppose the Required Rate of Return is 8%, should the project be accepted?
(07 Marks)
- e) Distinguish between:
- i) Risk and uncertainty
 - ii) Annuity due and deferred annuity
- (05 Marks)

Question 2

- a) Define corporate governance and state the principles of corporate governance
(04 Marks)
- b) Describe the role of the Board of Directors, Management and Audit committees in corporate governance
(06 Marks)
- c) You have been appointed as Finance Manager for Fumigation Limited (FL), one of the largest cleaning firms in Gabor city of banana republic. As one of your first tasks, the Executive Director asked you to produce a briefing memo to the Board of Directors on the subject of stakeholder's conflict.

Required:

- i) Prepare a memo, identifying and discussing the key stakeholders and their stake in an organization of your choice and the conflicts that might arise in meeting each stakeholder's objectives.
(08 Marks)
- ii) With reference to the agency theory, discuss the possible areas of conflict between Managers and shareholders and suggest ways these conflicts can be minimized.
(07 Marks)

Question 3

Delux Ltd is currently considering expanding its operations to serve increased demand. It has approached you, a finance expert to advise on its financial position and operating performance before seeking additional funds. You have been provided with the following information;

Statement of comprehensive income for the year ended 31st December (Shs in '000')

	2014	2015	2016
Sales	51,500	61,000	64,950
Cost of sales	36,750	43,250	46,000
Gross profit	14,750	17,750	18,950
Administration expenses	2,482	4,920	5,583
Depreciation	1,625	1,775	2,325
PBIT	10,643	11,055	11,042
Interest expenses	775	850	2,435
PBT	9,868	10,250	8,607
Taxes	4,493	4,610	4,012
Net Income	5,375	5,595	4,595

Statement of financial position as at December (Shs in '000')

	2014	2015	2016
Assets			
Cash	5,250	4,500	4,000
Receivables	3,500	4,500	3,750
Inventory	9,000	12,000	15,750
Net Non-current assets	41,500	52,000	69,000
Goodwill	30,000	30,000	30,000
Total Assets	89,250	102,000	122,500
Financed by:			
Bank overdraft	6,000	6,500	6,000
Accounts payables and accruals	2,500	3,750	6,000
Total current liabilities	8,500	10,250	12,000

Long-term debt	5,000	5,000	5,000
Share capital	40,000	42,500	42,500
Retained earnings	35,750	44,250	63,000
Total liabilities and capital	89,250	102,000	122,500

Required:

- Compute liquidity ratios and gearing ratios for the above firm for the given years and comment on the performance of the firm.
(10 Marks)
- Explain any 4 limitations of ratio analysis in the analysis of the financial health of a company
(05 Marks)
- With examples, distinguish between trend analysis and cross-sectional analysis
(05 Marks)
- Discuss the problems associated with trend analysis
(05 Marks)

Question 4

- Explain the concept of Risk- Return factor in working capital management.
(05 Marks)
- State 5 factors that may determine the level of working capital in an organization.
(05 Marks)
- Bintubizibu Ltd manufactures plastic items and it has been facing cash problems and has invited you as an expert to give advice on estimating its needs for funds during the period, June to November 2000. You have now obtained the following information relating to the firm's projections.

Estimated future sales are as follows (in millions of shillings)

June	July	August	September	October	November	December
500	400	600	1000	900	800	600

According to the company policy, 20% of sales are in cash, the balance being credit sales. 40% of credit sales are collected in the month following the sale and the remainder of the credit sales in the second month following the sale. April and May sales were shs. 700

million and 600 million respectively. The company incurs negligible debts. Bintubizibu Ltd pays 60% of sales price for raw materials and makes its purchases two months in advance of sales. The suppliers are however paid one month after the purchase. The company also incurs shs. 42 million per month for rent and 90 million per month for salaries and administrative expenses. Payments are made within the month in which they are incurred. Quarterly tax deposits of Shs. 95 Million are made beginning in August. The company has a cash balance of 70 Million as of May 31st 2000 and wishes to have a minimum balance in any month of shs. 50 Million.

Required:

Prepare a cash budget for Bintubizibu for a period of June to November 2000.

(15 Marks)

Question 5

Islamic finance is finance that is compliant with Sharia'a law. Islamic finance has gone through an exceptional growth period in recent years. The number of fully Sharia'a compliant banks continues to increase worldwide.

Required:

a) Briefly describe how the following Islamic finance contracts work;

- i) Mudaraba contract
- ii) Musharaka partnership contract
- iii) Ijara contract

(12 Marks)

b) Riba (interest) is forbidden in Islamic finance. It is generally interpreted as the predetermined interest collected by a lender, which the lender receives over and above the principal amount it has lent out.

Required:

- i) Briefly explain the three different perspectives under which riba can be viewed as unacceptable basing on the Quranic ban. **(06 Marks)**
- ii) Explain any conditions that are required for a Murabaha contract to exist as prescribed in the Sharia'a law **(07 Marks)**

Question 6:

- a) For any 4 business organizations of your choice, give their definitions and discuss three advantages and disadvantages of each (13 Marks)
- b) Explain the nature of the important decisions in finance showing the likely impact on the organization if each decision was not correctly made. (12 Marks)

END

GOOD LUCK