

**UGANDA MARTYRS UNIVERSITY, NKOZI/LUBAGA
CAMPUS**

**FACULTY OF BUSINESS ADMINISTRATION AND
MANAGEMENT**

DEPARTMENT OF ACCOUNTING & FINANCE

BAM 2 EVENING SEMESTER TWO 2017/18

COURSE UNIT: CORPORATE FINANCE I

DATE: Thursday, 8th may 2018

Time allowed: 4:00PM – 7:00PM

Instructions to Candidates:

Read the following before answering the examination questions.

- 1) Do not write anything on this question paper.
- 2) Write neatly and show all workings clearly.
- 3) Start every question on a new page
- 4) Clearly state the question number & sections attempted
- 5) Answer any four questions. Question **4 and 5** are **compulsory**

QUESTION ONE

1. A business undertakes a high risk venture that requires a rate of return of 18% on its investment. The proposed investment has an initial cash outlay of Shs 50,000 and cash inflows of 4 consecutive years as 18,000, 25,000, 20,000, 10,000 all in Ug Shs. Required is NPV of project at cost of capital 16% and 20% **(10 Marks)**
Use NPVs above to estimate IRR of project. **(5 Marks)**
Recommend on financial grounds if project should go ahead. **(3 Marks)**
- (b) Discuss the limitations of ratio analysis. **(7 Marks)**

QUESTION TWO

Write short notes on the following: **(5 Marks each)**

- Temporary working capital and Permanent working capital
- 3 reasons why time value of money is important in business
- Discounted cash flow techniques and non-discounted cash flow techniques
- Overtrading and trade credit
- 3 Decision areas of Financial Manager

QUESTION THREE

- (a) Discuss any 4 forms of business organisations in respect of their advantages and disadvantages. **(20 Marks)**
- (b) Explain any 5 possible sources of finance available to a business organization. **(5 Marks)**

QUESTION FOUR

- (a) Discuss the importance of capital budgeting **(10marks)**
- (b) If you are the Financial Manager of Uganda Revenue Authority, how do you approach capital Budgeting decisions? **(10marks)**

(c) Discuss the stages in capital budgeting decisions. **(5 Marks)**

QUESTION FIVE

(a) Examine critically the major considerations that should be taken into account when deciding on level of working capital. **(16 Marks)**

(b) Trade credit is very important to a firm since its significant source of working capital. The amount offered or taken on credit is a routine activity and needs to be reviewed. With examples explain the justifications for investing in debtors. **(9 Marks)**

QUESTION SIX

Financial analysis is useful if it meets the information requirements of parties interested in the business. Do you agree? Examine the statement and show case for your reasoning. **(25 Marks)**