UGANDA MARTYRS UNIVERSITY

FACULTY OF BUSINESS ADMINISTRATION AND MANAGEMENT

Department of Accounting and Finance

CORPORATE FINANCE I

CODE 2205

END OF SEMESTER II EXAMINATION

NKOZI BSC(A&F)II, NKOZI

BAM II & LUBAGA BAM II

Date: 12th July 2022

Duration: 3 hrs

Instructions

1. Do not write anything on the question paper
2. Attempt any **four**(4) questions.

1 **Question One**

(a) As a Business Administration and Management graduate from Uganda Martyrs University, explain different business forms where you would apply your Financial Management knowledge and skills.

(10Marks)

(b) As a Finance Expert, explain any three decisions you would take for each of the business forms mentioned in (a) above. **(15 Marks)**

2 **Question Two**

(a) Explain the concept of time value of money. Of what importance is the concept of time value of money to a rational investor.

(10 Marks)

(b) Distinguish between Discounting and Compounding as Financial Management concepts. **(5 Marks)**

(c) Bata ltd made earnings for the year 2020 totaling $10,000. The Managing Director suggests that a Fixed Deposit Account be opened at Centenary bank for one year at an interest rate of 10%. On the contrary, the Operations Manager suggests that for easy cash access, money should just be left on a Savings Account.

(i) As a Finance Expert, which option would you support and why? **(5 Marks)**

(ii) Bank of Baroda is also willing to offer an interest rate at 10% per annum on a fixed deposit account for the same amount but its interest shall be payable every three months. Would you consider this as a much better option than in (i) above? Why?

(5 Marks)

3 – 1000
3 - 1000
3 - 1000
3 - 1000

Question Three

(a) Deciding on the right source of financing for any form of business can be confusing considering that any option selected must maximize firm's wealth while minimizing the overall cost of capital. As a Finance Consultant, advise your clients on what factors one has to consider when deciding on the choice of financing. **(5 Marks)**

(b) Explain any six(6) forms of long-term financing sources and Six(6) forms of short-term financing sources that an organization would consider to grow its business and achieve its objectives. **(20 Marks)**

4 **Question Four**

The capital budgeting decision is the most important decision in financial management;

Required

(a) When is capital budgeting necessary? **(5 Marks)**

(b) Explain four reasons why managers need to be very careful and cautious when making capital budgeting decisions. **(5 Marks)**

(c) Uganda Martyrs University is planning to make an overhaul of its printing press and replace it with a more modern cost saving equipment. The new equipment is to be purchased at a cost of Shs.185m. It is projected that the new printing press will generate the following cash flows;

Year	1	2	3	4
Net Cash flows (m)	90m	55m	40m	60m

It is agreed that 10% would be enough compensation for the investment by the university. (RRR = 10%)

Required:

(i) Calculate the Net Present Value of the project and comment on the viability of the project? **(5 Marks)**

(ii) Calculate the Payback Period of the project and comment on the viability of the project above given that Uganda Martyrs University management considers three years as good enough a time for any university investments to generate benefits. **(5 Marks)**

(iii) Explain why using a NPV method is better than using a payback period method in appraising an investment. **(5 Marks)**

5 **Question Five**

Working capital management decision is a decision concerned with short term capacity that enables the business to operate the long term assets on a daily basis in order to produce the desired goods and services.

Required:

(a) Explain "liquidity and profitability trade-off" in working capital management. **(6 Marks)**

(b) Zam Zam ltd has the following items on its end of 2019 balance sheet; Cash Shs.150m, Debtors Shs.240m, Inventories Shs.160m, Prepaid rent Shs.200m, Trade creditors Shs.210m, accrued wages Shs.160m and an overdraft of Shs.62m.

Required: Determine:

(i) Gross working capital **(3 Marks)**

(ii) Net working capital **(3 Marks)**

(c) KENTCO Ltd., manufacturers of plastic items has been facing cash problem and has invited you, as an expert to give advice on estimating its needs for funds during the period, January to June 2022. You have obtained the following information relating to the projections.

- Forecast of sales for the first six months of sales in (Ugx. '000').

January	**February**	**March**	**April**	**May**	**June**
62,500	62,500	75,000	100,000	135,000	75,000

According to company policy, 20% of the sales are on cash, the balance being credit sales. 50% of credit sales are collected in the month following the sale and the remainder of credit sales in the second month following the sale. However, debtors of the previous years are expected to pay in January. Their amount is Ugx. 177,185,500.

The purchases for the next six months will be as follows and will not be on cash basis in (Ugx. '000').

January	**February**	**March**	**April**	**May**	**June**
75,000	75,000	100	125,000	125,000	125,000

- Suppliers will be paid in the month following the delivery and the creditors of the previous year amounting to Ugx.60,750,000 will be paid in February. The company will pay rent amounting to Ugx.70, 000,000 in March for the year.
- Wages per month will be Ugx. 15, 000,000 per month expect for the months of May and June where they will be higher by Ugx.5, 000,000 due to over time.
- The proposed dividends of Ugx.7, 500,000 will be paid in the month of February. Over heads totaling to Ugx. 10, 000,000 will be paid per month.
- Assets of Ugx. 1,000,000 will be purchased in the month of January. Depreciation is provided on all fixed assets on a reducing balance method.
- The cash Balance as at 31.December, the previous year was Ugx. 27,000,000.

Required:

Prepare a cash budget for KENTCO Ltd for the said period.

(13 Marks)

Question Six

(a) Financial analysis is defined as the systematic use of ratio to interpret the financial statements so that the strength and weaknesses of a firm as well as its historical performance and current financial condition can be defined.

Required:

With examples differentiate between trend analysis and cross- section analysis as used in financial analysis. **(5 Marks)**

(b) Explain any four(4) categories into which financial ratios can be classified. Give at least one interested party for each category.

(5 Marks)

(c)Given two firms in trade and commerce industry whose financial information is as follows:

FIRM	A	B
Net Income	500m	180m
Sales	5bn	360m
Assets	10bn	480m

Compare the performance of the two firms using the appropriate ratio(s) and advise an investor in which of the two firms he should buy shares and why?

(5 Marks)

(d) The financial statements of BAM Ltd dealing in Tours for the year ended 2021 is as presented below:

Statement of Financial Position (Balance Sheet) as at 31st Dec 2021

Assets		**Capital & Liabilities**	
Cash	2,100,000	Creditors	8,400,000
Debtors	10,500,000	Bills Payable	4,200,000
Stock	14,700,000	Expenses Outstanding	1,200,000
Net Fixed Assets	31,500,000	Provision for tax	3,000,000
Goodwill	4,200,000	Long-term debt	25,000,000
		Preference Share capital	8,400,000
		Equity Share Capital	4,400,000
		Reserves	8,400,000
	63,000,000		**63,000,000**

Income Statement as at 31st Dec 2021

Sales:	Cash Sales	8,400,000
	Credit Sales	33,600,000
		42,000,000
Cost of Sales and Expenses		
	Cost of goods sold	25,200,000
	Selling, Admin & General Expenses	4,200,000
	Depreciation	2,940,000
	Interest on long-term debt	1,260,000
		33,600,000
	Earnings Before taxes	8,400,000
	Taxes	4,200,000
	Earnings after taxes	4,200,000
	Less Preference Dividends	504,000
	Earnings available to shareholders	3,696,000
	Add reserves as at Jan 1st 1995	5,460,000
		9,156,000
	Less Ordinary Share dividends	756,000
	Reserves at December 31st 1995	8,400,000

Required:

Fill in the following table. The first entry is done for your guidance and the table shows the ratios relating to the year 2021. **(10 Marks)**

(i)	Current ratio	Current Assets / Current Liabilities	18,200,000 / 11,200,000	= 1.63
(ii)	Quick ratio			
(iii)	Debtors turnover			
(iv)	Stock turnover			
(v)	Debt to Equity ratio			
(vi)	Net profit margin			
(vii)	Times interest earned ratio			

- END –