

# **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 & LUBAGA DAY**

**Date: 19<sup>th</sup> DECEMBER 2022**

**TIME: 9:30AM – 12:30 NOON**

## **Instructions**

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

### Question One

The Chief Executive Officer (CEO) of Tano (U) Ltd stated in the 2022 annual report to the Board of Directors that "... attaining value for shareholders is our guiding principle; we aim at delivering value reliably and consistently". However, the Chairperson of the Board of Directors objected to the CEO's assertion and instead said that their sole objective should be profit maximization so that the company can pay taxes and dividends to its shareholders on time. The Chairperson also asked Tano Ltd management to identify all key roles of a financial controller in an organization in Uganda so that they can always try to encourage him perform his roles without often going off his roles. Tano Ltd management has approached you as a financial consultant for advice.

Required:

- (a) Explain the non-financial objectives that may be pursued by Tano (U) Ltd.  
(6 Marks)
- (b) Discuss the weaknesses of profit maximization as an objective of a company.  
(6 Marks)
- (c) Identify the key roles of a financial controller/manager in Tano (U) Ltd.  
(4 Marks)
- (d) Within a corporate financial management context, discuss the problems/conflicts that might exist in the relationships (Sometimes referred to as agency relationships) between;
  - (i) Shareholders and managers, (3 Marks)
  - (ii) Shareholders and debt holders/creditors (3 Marks)
- (e) How might a company attempt to minimize such problems/conflicts in (d)?  
(3 Marks)

### Question Two:

With examples distinguish between the following as used in Corporate Finance.

- Islamic banking and Conventional banking methods. (5 Marks)
- Compounding and Discounting (5 Marks)
- Time Value of Money and Perpetual annuity (5 Marks)
- Annuity due and Annuity deferred (5 Marks)
- Internal rate of return(IRR) and Accounting Rate of return(ARR). (5 Marks)

### Question Three

Azam Ltd a manufacturer of wheat flour has been facing cash problems 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:

- Estimated future sales are as follows ( in USD):

January	February	March	April	May	June
250,000	250,000	300,000	400,000	540,000	300,000

It is estimated that;

- 60% of the sales will be credit sales. Of the debtors 80% will pay in the month following the sale and 20% in the next month. However, debtors of 2021 totaled USD 315,000 are expected to pay in January.
- The purchases for the next six months will be as follows; there will be no purchases on cash.

January	February	March	April	May	June
300,000	300,000	400,000	500,000	500,000	500,000

- Suppliers will be paid in the month following the delivery and the creditors of 2021 totaled USD 108,000 and are to be paid in February.
- The company will pay rent for the year amounting to USD 600,000 in march.
- Wages per month will be USD 54,000 except for the month of May and June where they will be higher by USD 5,000 due to overtime.
- The proposed dividend of USD 50,000 will be paid in February 2022
- Overheads totaling to USD 10,000 will be paid per month, payable in the month they are incurred.
- Asset of USD 80,000 will be purchased in January

#### Required:

- Prepare a Cash budget for the months of January to June 2022 & comment on the results of the cash budget you have prepared. (15 Marks)
- Explain why it's important to prepare a cash budget (5 Marks)
- As a financial consultant advise the management of Azam Ltd on the dangers of inadequate working capital and excessive working capital. (5 Marks)

#### Question Four

SAGL is a leading Aluminium and Glass company located in Kampala. There is a strategic need for the replacement of a machine to be used for the production of their new Architectural products. Funds are available for only one model. The company has to make a choice between Model 1 called Super and Model 2 called Deluxe. They are not certain as to which of the two models they should buy. They have given you the information below on profiles of the each model;

	<b>Super Model</b>	<b>Deluxe Model</b>
Cost	£500,000	£ 800,000
	<b>Net cash inflows (£)</b>	<b>Net cash inflows (£)</b>
Year 1	250,000	150,000
2	100,000	200,000
3	100,000	250,000
4	50,000	100,000
5	150,000	100,000
6	100,000	250,000

Required:

- (a) If the firm's cost of capital is 10% evaluate the models and recommend with reasons which model the firm should buy using each of the following investment appraisal techniques.
- (i) Payback period (PBP) (4 Marks)
  - (ii) Net Present Value (NPV) (8 Marks)
  - (iii) Profitability index (PI) (4 Marks)
- (b) Explain the limitations of Payback period (PBP) as a method of appraising investment proposals. (4 marks)
- (c) With examples differentiate between Independent investments, Contingent investments and Mutually exclusive investments. (5 Marks)

### Question Five

Tubonge Ltd deals in garments like T-shirts, shirts and sweaters. The company is to supply T-shirts to a political party on a tight schedule. Uganda's economic outlook is currently subdued given the Covid 19 pandemic, with many businesses closing down and some seeking financial bail-outs from government. Tubonge Ltd is now seeking the best approach to take to overcome the current financial challenges. They have engaged you as a Financial Management consultant for advice.

#### Required:

- (a) Explain any four(4) factors to be taken into consideration by Tubonge Ltd before choosing a source of finance. (4 Marks)
- (b) Advise Tubonge Ltd on any six(6) short-term and long term sources of finance available to help Tubonge Ltd manage their current operations. (16 Marks)
- (c) Suppose that Tubonge Ltd Ltd has an opportunity of investing USD 750,000 in a savings account at interest rate of 12% per annum for 6 years. How much would this amount accumulate to at the end of 6 years? (5 Marks)

### Question Six

Fresh Fruits Ltd is a company dealing in manufacture of juice products. It has approached you the finance expert to advise on its financial position and operating performance before seeking additional funds. You have been provided with the following information:

#### **Income Statement for the year ended December (Currency US.Dollars)**

Details	2019	2020	2021
Sales	51,500	61,000	64,950
Cost of sales	36,750	43,250	46,000
Gross profit	14,750	17,750	18,950
Selling and administration Expenses	2,482	4,920	5,583
Depreciation	1,625	1,775	2,325
Earnings before Interest and Tax(EBIT)	10,643	11,055	11,042
Interest expenses	775	850	2,435
Earnings before Tax	9,868	10,250	8,607
Taxes	4,493	4,610	4,012
Net Income	5,375	5,595	4,595

**Balance sheet as at December ( Currency US. Dollars)**

<b>Details</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
<b>Assets</b>			
Cash at Hand	5,250	4,500	4,000
Debtors	3,500	4,500	3,750
Inventory	9,000	12,000	15,750
Net Fixed Assets	41,500	52,000	69,000
Goodwill	30,000	30,000	30,000
<b>Total Assets</b>	<b>89,250</b>	<b>102,000</b>	<b>122,500</b>
Bank overdraft	6,000	6,500	6,000
Accounts payables and accruals	2,500	3,750	6,000
<b>Total current liabilities</b>	<b>8,500</b>	<b>10,250</b>	<b>12,000</b>
Long-term debt	5,000	5,000	5,000
Common stock	10,750	11,750	30,500
Reserves and Surpluses	40,000	42,500	42,500
Retained Earnings	25,000	32,500	32,500
	<b>89,250</b>	<b>102,000</b>	<b>122,500</b>

**Required:**

- (a) Compute the following ratios for the three years 2019, 2020, 2021 and comment on the performance of Fresh Fruits Ltd over those years: (8 Marks)
- Current ratio
  - Net profit margin
  - Inventory turnover ratio
  - Times Interest Earned Ratio
- (b) Carry out an index analysis on the financial statements provided and comment briefly on the performance of Fresh Fruits Ltd. (10 Marks)
- (c) Explain the different users of financial ratios and show the kind of ratios they would be interested in. (7 marks)

**Sample Present Value Tables.**  
**Present Value of \$1**

Years	4%	5%	6%	7%	8%	9%	10%	11%	12%	15%
1	0.962	0.952	0.943	0.935	0.926	0.917	0.909	0.901	0.893	0.870
2	0.925	0.907	0.890	0.873	0.857	0.842	0.826	0.812	0.797	0.756
3	0.889	0.864	0.840	0.816	0.794	0.772	0.751	0.731	0.712	0.658
4	0.855	0.823	0.792	0.763	0.735	0.708	0.683	0.659	0.636	0.572
5	0.822	0.784	0.747	0.713	0.681	0.650	0.621	0.593	0.567	0.497
6	0.790	0.746	0.705	0.666	0.630	0.596	0.564	0.535	0.507	0.432
7	0.760	0.711	0.665	0.623	0.583	0.547	0.513	0.482	0.452	0.376
8	0.731	0.677	0.627	0.582	0.540	0.502	0.467	0.434	0.404	0.327
9	0.703	0.645	0.592	0.544	0.500	0.460	0.424	0.391	0.361	0.284
10	0.676	0.614	0.558	0.508	0.463	0.422	0.386	0.352	0.322	0.247
11	0.650	0.585	0.527	0.475	0.429	0.388	0.350	0.317	0.287	0.215
12	0.625	0.557	0.497	0.444	0.397	0.356	0.319	0.286	0.257	0.187
13	0.601	0.530	0.469	0.415	0.368	0.326	0.290	0.258	0.229	0.163
14	0.577	0.505	0.442	0.388	0.340	0.299	0.263	0.232	0.205	0.141
15	0.555	0.481	0.417	0.362	0.315	0.275	0.239	0.209	0.183	0.123
16	0.534	0.458	0.394	0.339	0.292	0.252	0.218	0.188	0.163	0.107
17	0.513	0.436	0.371	0.317	0.270	0.231	0.198	0.170	0.146	0.093
18	0.494	0.416	0.350	0.296	0.250	0.212	0.180	0.153	0.130	0.081
19	0.475	0.396	0.331	0.277	0.232	0.194	0.164	0.138	0.116	0.070
20	0.456	0.377	0.312	0.258	0.215	0.178	0.149	0.124	0.104	0.061

**Present Value of an Annuity of \$1**

Years	4%	5%	6%	7%	8%	9%	10%	11%	12%	15%
1	0.962	0.952	0.943	0.935	0.926	0.917	0.909	0.901	0.893	0.87
2	1.886	1.859	1.833	1.808	1.783	1.759	1.736	1.713	1.69	1.626
3	2.775	2.723	2.673	2.624	2.577	2.531	2.487	2.444	2.402	2.283
4	3.63	3.546	3.465	3.387	3.312	3.24	3.17	3.102	3.037	2.855
5	4.452	4.329	4.212	4.1	3.993	3.89	3.791	3.696	3.605	3.352
6	5.242	5.076	4.917	4.767	4.623	4.486	4.355	4.231	4.111	3.784
7	6.002	5.786	5.582	5.389	5.206	5.033	4.868	4.712	4.564	4.16
8	6.733	6.463	6.21	5.971	5.747	5.535	5.335	5.146	4.968	4.487
9	7.435	7.108	6.802	6.515	6.247	5.995	5.759	5.537	5.328	4.772
10	8.111	7.722	7.36	7.024	6.71	6.418	6.145	5.889	5.65	5.019
11	8.76	8.306	7.887	7.499	7.139	6.805	6.495	6.207	5.938	5.234
12	9.385	8.863	8.384	7.943	7.536	7.161	6.814	6.492	6.194	5.421
13	9.986	9.394	8.853	8.358	7.904	7.487	7.103	6.75	6.424	5.583
14	10.563	9.899	9.295	8.745	8.244	7.786	7.367	6.982	6.628	5.724
15	11.118	10.38	9.712	9.108	8.559	8.061	7.606	7.191	6.811	5.847
16	11.652	10.838	10.106	9.447	8.851	8.313	7.824	7.379	6.974	5.954
17	12.166	11.274	10.477	9.763	9.122	8.544	8.022	7.549	7.12	6.047
18	12.659	11.69	10.828	10.059	9.372	8.756	8.201	7.702	7.25	6.128
19	13.134	12.085	11.158	10.336	9.604	8.95	8.365	7.839	7.366	6.198
20	13.59	12.462	11.47	10.594	9.818	9.129	8.514	7.963	7.469	6.259