

UGANDA MARTYRS UNIVERSITY, NKOZI CAMPUS

**FACULTY OF BUSINESS ADMINISTRATION AND
MANAGEMENT**

DEPARTMENT OF ACCOUNTING & FINANCE

BSC ACC& FIN 2 SEMESTER TWO 2017/18

COURSE UNIT: CORPORATE FINANCE

DATE: Wednesday, 2nd May 2018

Time allowed: 9:30am-12:30pm

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, all questions carry equal marks

QUESTION ONE

Working capital refers to 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 the Risk Return Factor in working capital management. **(5 Marks)**
- (b) Discuss the factors that determine the level of Working Capital of an organization. **(10 Marks)**
- (c) Explain the justifications for investment in debtors by an organization. **(10 Marks)**

QUESTION TWO

A firm is constantly in need of long-term as well as short -term capital.

Required:

- (a) Discuss the factors taken into consideration when choosing a source of finance. **(10 Marks)**
- (b) Explain the short - term sources of finance available to a finance manager seeking to raise funds for working capital purposes. **(15 Marks)**

QUESTION THREE

- (a) With examples, differentiate between independent investments, mutually exclusive investments and contingent investments. **(6 Marks)**
- (b) If you are to appraise two mutually exclusive investments using either the net Present Value(NPV) or the Internal rate of return(IRR) techniques, Which of the two techniques would be the most ideal to use and why?**(6 Marks)**
- (c) Nansuk, Ltd. has a project with the following cash flows.

Year	Cash Flows (\$)
0	-900,000
1	450,000
2	450,000
3	450,000

- i) Compute the Internal Rate of Return (IRR) if the appropriate discount rate is 13%. **(10 Marks)**
- ii) Should the project be accepted or not? Give reasons **(3 Marks)**

QUESTION FOUR

- (a) What is time value of money?(4 Marks)
- (b) Brian is to save USD 5,500 at the end of each year for three years. If interest is paid at 13%. What is the future value of Brian's total savings? (7 Marks)
- (c) If you deposited Ugx. 8,100,000 in a bank, which is paying 14% interest on a two (2) year time deposit, how much would your deposit grow to at the end of the two years if interest is calculated twice a year? (7 marks)
- (d) Jennie is travelling to India for her MBA studies and is to decide whether to receive her pocket money from her Dad today of USD 5,100 at once or to receive yearly instalments of USD 2,100 at the end of each year for three years. Assume interest is paid at 10%. Advise Jennie on the best option and why. (7 Marks)

QUESTION FIVE

- (a) Considering the historical and futuristic costs of capital, which version is more reliable for decision making and why?(5 Marks)
- (b) Why is it important for corporations to determine the cost of capital for Equity and Debt sources of finance? (5 Marks)
- (c) Ngero Corporation Ltd presently has a total capital structure of Shs 160 million made up of 2,000 ordinary shares of shs 40,000 each, 10% preference shares worth shs 20,000,000 and 14% Debentures covering the rest. The company's shares currently fetch Shs 40,000 on the market and a dividend of shs 4,000 is paid and is expected to grow at a rate of 5% perpetually. The firm is in a 50% tax bracket.

Required: Determine the weighted cost of capital basing on the existing capital structure of Ngero Corporation Ltd. (8 Marks)

- (d) Ngero Corporation Ltd wants to raise an additional Shs 20 million by getting a 10% long term bank loan. This will increase the expected dividend to Shs 6,000 though the growth rate will remain unchanged. The price of the shares will however fall to Shs 30,000 per share. Ngero the Finance Officer is inquiring from you, what should be the minimum rate of return acceptable to the company after these events.

Required:

Determine the weighted future cost of capital. (7 marks)

QUESTION SIX

UMBA Investments Ltd was started by a group of MBA students in 2015. You have obtained information about its performance over the years 2016 and 2017 as below;

UMBA Investments Ltd
Profit and Loss Account
for years ended 31st December 2016 and 31 December 2017

	Year 2017 (Shs)	Year 2016 (Shs)
Turnover	720,000	600,000
Cost of Sales	432,000	348,000
Gross profit	288,000	252,000
Administrative costs	138,000	114,000
Operating profit	150,000	138,000
Interest	45,000	45,000
Profit before tax	105,000	93,000
Taxes	42,000	36,000
Retained profit	33,000	31,000

UMBA Investments LTD
Balance Sheet
for years ended 31st December 2016 and 31 December 2017

	Year 2017 (Shs)	Year 2016 (Shs)
Land and buildings	600,000	615,000
Plant equipment	555,000	503,000
Stock	115,000	82,000
Debtors	89,000	61,000
Prepayments	10,000	9,000
Bank	6,000	46,000
	1,375,000	1,375,000
Creditors	45,000	30,000
Taxes	42,000	37,000
Proposed dividends	30,000	25,000
Accruals	8,000	7,000
12% debentures	375,000	375,000
Ordinary share capital	500,000	500,000
Retained profits	375,000	342,000
	1,375,000	1,316,000

Required:

- (a) Carry out an analysis of the profitability, efficiency, liquidity and leverage position of UMBA Investments Ltd for both years. **(20 Marks)**
- (b) Explain the importance of financial ratios in assessing the performance and strength of a Public limited company. **(5 marks)**