

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

**FACULTY OF BUSINESS ADMINISTRATION AND
MANAGEMENT**

DEPARTMENT OF ACCOUNTING & FINANCE

BAM 2 SEMESTER TWO 2017/18

COURSE UNIT: CORPORATE FINANCE 1

DATE: Thursday, 10th 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, Question **1 and 2** are **compulsory**

QUESTION ONE

- a) Mukwano LTD wants to buy a new item of equipment which will be used to provide a service to customers of the company. Two models of equipment are available, one with slightly higher capacity and greater reliability than the other. The expected costs and profits of each item are as follows:

	Equipment A	Equipment B
Capital Cost	Shs 80,000,000	Shs 150,000,000
Life	5 years	5 years
Profit before Depreciation	Shs '000	Shs' 000
Year 1	50,000	50,000
Year 2	50,000	50,000
Year 3	30,000	60,000
Year 4	20,000	60,000
Year 5	10,000	60,000
Disposable Value	0	0

The return on capital employed (ROCE) also called the Accounting rate of return (ARR) again called return on investment (ROI) measures the return from a project in relation to the capital employed or resources utilized.

Required:

- Calculate the ROCE/ARR/ROI **(10 Marks)**
- Write a report advising management on the project to be undertaken if company's target ROCE is 30% **(3 Marks)**
- Examine advantages and limitations of ROCE. **(6 Marks)**
- Explain circumstances under which IRR and NPV would give conflicting rankings as to which project to choose. **(6 Marks)**

QUESTION TWO

- 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)**

- c) 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 THREE

- a) Efficient financial management requires the existence of corporate objectives. Do you agree? Justify your reasoning in detail. **(15 Marks)**
- b) James is a Financial Manager of a company in financial crisis. He comes to you for advice on possible alternative sources of finance. What criteria will you use to choose between them? **(10 Marks)**

QUESTION FOUR

Write short notes on each of the following:

- a) The 3 major decision areas of a Finance Manager.
- b) Net present Value
- c) Capital Rationing
- d) Mutually exclusive projects
- e) Permanent Working capital **(25 Marks)**

QUESTION FIVE

Deluxe 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 SIX

- a) 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. **(06 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. **(06 Marks)**
- b) For any 4 business organizations of your choice, give their definitions and discuss three advantages and disadvantages of each **(13 Marks)**