UGANDA MARTYRS UNIVERSITY

FACULTY OF BUSINESS ADMINISTRATION AND MANAGEMENT

DEPARTMENT OF ACCOUNTING AND FINANCE

COURSE UNIT: CORPORATE FINANCE II **(ACC SPEC)**

COURSE: BAM III

DATE: THURSDAY 7TH DECEMBER 2023

TIME ALLOWED: 3HOURS

INSTRUCTIONS

I. Attempt any FOUR questions of your choice.

II. Your work should be neat and tidy

III. Clarity of expression will give you more credit

See examination answer booklet for further instructions.

QUESTION ONE

a) Refer to any public company in Uganda, explain four major decisions you would take as a financial manager in the company mention. **8Marks**

b) "Failure to invest excess funds is a good decision to please management and employees but annoyance and a loss to equity investors" asserts a Finance Expert. Discuss the assertion. **8 Marks**

c) Bronia 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 to facilitate operations, money should just be left on a Savings Account.

   i. As a Finance Expert, which option would you support? **4Marks**

   ii. Bank of Baroda is also willing to offer an interest rate at 10% per annum on a fixed amount with interest payable every three months. Would you consider this as a much better option than in (1) above? **5Marks**

QUESTION TWO

Biashara printing company hired Jimmy Consults to do a feasibility study and establish whether acquisition of a new commercial printing equipment, purchase of rental apartments or investing in MTN Uganda shares could be worthy investments.

Jimmy Consults is expected to present a report to Biashara Printing management and the Board Members on the best option to invest excess profits made during the year.

REQUIRED

i. Explain stages Jimmy Consults will go through to guide Biashara Printing to make a decision on the best option. **5 Marks**

ii. Assuming investment in commercial apartments has been evaluated and selected as the best option to commit funds, explain any five sources of risks that may hinder realization of benefits as anticipated. **5 Marks**

iii. Jimmy Consults has been able to anticipated cash flows in Commercial rental apartments as follows.

Year	1	2	3	4	5
Cash-flow(Ugx millions)	8	10	12	14	16

Given that Biashara Printing co invested Ugx. 10,000,000 at a discount rate of 10% per annum. Using NPV, justify if this project is worth the investment? **7 Marks**

iv) If the anticipated cash-flows in(iii) above have probabilities of occurrence as 0.1, 0.2, 0.4, 0.2 and 0.1 respectively, do you think Biashara Printing Co will change its investment decision. **8 Marks**

QUESTION THREE

a) With examples, explain the difference between Initial Public Offer and Prospectus. **4 Marks**

b) Explain different ways how public companies offer shares in a bid to raise funds. **6 Marks**

b) Consider an enterprise with a capital structure consisting of 70% equity and 30% debt; its cost of equity is 10% and the after-tax cost of debt is 7%. Calculate the firm's Weighted Average Cost of Capital. **5Marks**

c) Explain MM capital structure theory. **10 Marks**

QUESTION FOUR

a) As a Finance Expert working for a public company, explain factors that you need to consider while doing a financial analysis to help Management in decision making. **5 marks**

b) Refer to any public company of your choice, explain five key financial ratios that are critical for financial analysis. State at least two interested parties for each ratio. **10 marks**

c) Babylon ltd obtained the following summarized financial statements from Ndugu Ltd, a potential new supplier, for the years ended 31 December 2011 and 2010.

Statements of profit and loss and other comprehensive income for the years ended 31 December

	2010	2011
	Shs 000	Shs 000
Revenue	1,159,850	1,391,820
Cost of sales	(753,450)	(1,050,825)
Gross profit	406,400	340,995
Operating expenses	(170,950)	(161,450)
Profit from operations	235,450	179,545
Finance costs	(14,000)	(10,000)
Profit before tax	221,450	169,545
Income tax	(66,300)	(50,800)
Profit for the year	155,150	118,745
Other comprehensive income	-	50,000
Total comprehensive income	155,150	168,745

Statement of financial position as at 31 December

	2010	2011
	Shs 000	Shs 000
Assets		
Non-current assets	341,400	509,590
Current assets		
Inventory	88,760	109,400
Receivables	206,550	419,455
Bank	95,400	-
	390,710	528,855
Total assets	732,110	1,038,445
Equity & liabilities		
Equity		
Share capital	100,000	100,000
Share premium	20,000	20,000
Revaluation reserve	-	50,000
Retained earnings	287,000	376,165
	407,420	546,165
Non-current liabilities	83,100	61,600
Current liabilities		
Payables	179,590	345,480
Bank overdraft	-	30,200
Income tax	62,000	55,000
	241,590	430,680
Total equity & liabilities	732,110	1,038,445

The directors concluded that their revenue for the year ended 31 December 2010 fell below budget and introduced measures in the year 31 December 2011 to improve the situation. These included:

- Reducing prices
- Extending credit facilities to customers
- Leasing additional machinery in order to be able to manufacture more products

You are required to carry out a financial evaluation on the potential supplier from the information above. **10 Marks**

QUESTION FIVE

a) What is the difference between financial distress and business failure? **6Marks**

b) Explain the nature and causes of financial distress in a firm? **10 Marks**

c) Given the following cases, identify the nature of financial distress and suggest possible ways to address it.

Turigye Ltd. has total current assets of Shs.400m, net fixed assets of Shs.300m, current obligations of Shs.500m and long-term debt of Shs.400m. **3 marks**

DEF Ltd, which has current assets of Shs.1.8bn. Net fixed assets of Shs 3.9Bn, current liabilities of Shs. 1.6Bbn. And long-term debts of Shs.3.3bn. The business has consistently reported losses over the last four years with last years losses alone standing at Shs.500m. **3 Marks**

GHF Ltd. Has current assets of Shs.800m, net fixed assets of Shs.1.5bn, current liabilities of Shs.500m and long-term debt of Shs.400m. The business is growing rapidly and previous years profits were Shs.200m. However, it is behind in payment schedules for its suppliers. It has a Shs.50m overdue tax payment and is one week behind in its payroll payment. **3 Marks**

QUESTION SIX

a) Justify why businesses go international. **5 Marks**

b) Explain three types of foreign exchange risks that your business will be exposed to as a result of going international. **6Marks**

c) Explain possible ways on how you would manage exposures in (b) above. **10 Marks**

d) If a firm expects to earn USD 500m in exports and the exchange rate of a US Dollar to Ugandan Shillings is $1 = 1600,

If the exchange rate were to change as follows:

Case 1 USD 1 = Shs 1,800

Case 2 USD 1 = Shs 1,200

Analyze the degree of exposure in the firm faces. **4 Marks**

END