

# UGANDA MARTYRS UNIVERSITY

FACULTY OF BUSINESS ADMINISTRATION AND MANAGEMENT

FINAL EXAMINATION FOR THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION

LUBAGA/MASAKA/MBALE CAMPUS

**CODE: MBA 6210**      **COURSE: FINANCIAL ANALYSIS AND DECISION MAKING**

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**DATE:** SATURDAY 10<sup>th</sup> SEPTEMBER 2022

**TIME:** 9:00 AM- 12:00 NOON (3 Hours)

**Instructions:**

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- (i) The Examination Paper consists of Six Questions.
  - (ii) Attempt any **Four** Questions
  - (iii) All questions carry equal marks
  - (iv) Your work must be neat and show all the relevant workings
  - (v) Mobile Phones are not allowed in the examination room
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### **QUESTION ONE**

Karlmax Ltd is a public listed manufacturing company. Its summarized financial statements for the year ended 31 December 2021 (and 2020 comparatives) are given below:

#### **Statements of profit / loss for the year ended 31 December:**

	<b>2021</b>	<b>2020</b>
	<b>Shs 000</b>	<b>Shs 000</b>
Revenue	295,000	360,000
Cost of sales	(255,000)	(260,000)
Gross profit	40,000	100,000
Distribution costs	(10,500)	(8,000)
Administrative expenses	(49,000)	(39,000)
Investment income	500	2,000
Finance costs	(6,000)	(5,000)
Profit (loss) before taxation	(25,000)	50,000
Income tax (expense) relief	4,000	(15,000)
Profit (loss) for the year	(21,000)	35,000

#### **Statements of financial position as at 31 December:**

<b>Assets</b>	<b>2021</b>	<b>2020</b>
	<b>Shs 000</b>	<b>shs000</b>
Non-current assets		
Property, plant and equipment	176,000	245,000
Investments at fair value through profit or loss	24,000	40,000
	200,000	285,000
Current assets		
Inventory and work-in-progress	22,000	19,000
Trade receivables	22,000	28,000
Tax asset	6,000	nil
Bank	12,000	1,000
	62,000	48,000
<b>Total assets</b>	<b>262,000</b>	<b>333,000</b>

**Equity and liabilities****Equity**

Equity shares of Shs 10 each	130,000	120,000
Share premium	10,000	nil
Revaluation reserve	nil	45,000
Retained earnings	36,000	65,000
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	<b>176,000</b>	<b>230,000</b>

**Non-current liabilities**

Bank loan	40,000	50,000
Deferred tax	<u>12,000</u>	<u>7,000</u>
	62,000	57,000

**Current liabilities**

Trade payables	34,000	28,000
Current tax payable	<u>nil</u>	<u>18,000</u>
	34,000	46,000

**Total equity and liabilities**

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<b>262,000</b>	<b>333,000</b>
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**Additional Information**

***The following information has been obtained from the Chairman's statement and the notes to the financial statements:***

'Market conditions during the year ended 31 December 2021 proved very challenging due largely to difficulties in the global economy as a result of Covid 19 and a sharp recession which has led to steep falls in share prices and property values. Karl max Ltd has not been immune from these effects and our properties have suffered impairment losses of Shs 60 million in the year.'

The excess of these losses over previous surpluses has led to a charge to cost of sales of Shs 15 million in addition to the normal depreciation charge.

'Our portfolio of investments at fair value through profit or loss has been 'marked to market' (fair valued) resulting in a loss of Shs 16 million (included in administrative expenses).'

There were no additions to or disposals of non-current assets during the year

'In response to the downturn the company has unfortunately had to make a number of employees redundant incurring severance costs of Shs 13 million (included in cost of sales) and undertaken cost savings in advertising and other administrative expenses.'

'The difficulty in the credit markets has meant that the finance cost of our variable rate bank loan has increased from 4.5% to 8%. In order to help cash flows, the company made a rights issue during the year and reduced the dividend per share by 50%.'

'Despite the above events and associated costs, the Board believes the company's underlying performance has been quite resilient in these difficult times.'

**Required:**

Analyze and discuss the financial performance and position of Karl Max Ltd as portrayed by the above financial statements and the additional information provided. **(25 marks)**

**Note: Your analysis should be supported by profitability, liquidity, gearing and other appropriate ratios.**

**QUESTION TWO**

The statement of Financial Position of Taasa Co. as on 31st December, 2019 and 31st December 2020 are as follows:

	2019	2020
<b>Assets</b>		
Land & building	80,000	120,000
Plant & Machinery	500,000	800,000
Stock	100,000	75,000
Debtors	150,000	160,000
Cash	<u>20,000</u>	<u>20,000</u>
<b>Total Assets</b>	<b><u>850,000</u></b>	<b><u>1,175,000</u></b>
<b>Capital &amp; Liabilities</b>		
Share Capital	500,000	700,000
Profit/loss	100,000	160,000
General reserve	50,000	70,000
Sundry creditors	153,000	190,000
Bills payable	40,000	50,000
Accrued expenses	<u>7,000</u>	<u>5,000</u>
<b>Total Capital &amp; Liabilities</b>	<b>850,000</b>	<b>1,175,000</b>

**Additional Information:**

- (1) Ugx. 50,000 depreciation has been charged on Plant and Machinery during 2020.  
(2) A piece of Machinery was sold for Ugx. 8,000 during the year 2020. It had cost Ugx. 12,000; depreciation of Ugx. 7,000 had been provided on it.

**Required**

- i) Prepare for Taasa co a Schedule of changes in Working Capital and a Statement showing the sources and application of funds for 2020. **(10 marks)**  
ii) As a financial analyst comment on the funds flow statement for Taasa Co. **(5 marks)**  
iii) Discuss the major reasons that may lead a company like Taasa to be financially distressed and how it can address financial distress in case it happens **(10 marks)**

**QUESTION THREE**

The financial statements below relate to Nyege Nyege Ltd, a company started by a group of MBA students in 2016.

**Nyege Nyege Ltd. Profit /loss account for the years ended 31<sup>st</sup> December****All figures in us dollars**

	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
Turnover	1000	850	720	600
Cost of sales	(622)	(522)	(432)	(348)
Gross margin	378	328	288	252
Distribution, Admin, Costs	(208)	(170)	(138)	(114)
Operating profit	70	158	150	138
Interest	(45)	(45)	(45)	(45)
Profit before tax	125	113	105	93
Taxation	(50)	(45)	(42)	(36)
Profit after tax	75	68	63	57
Dividends proposed	(30)	(27)	(30)	(25)
Profit carried forward	45	41	33	32

**Nyege Nyege Ltd. Balance sheet for the years ended 31<sup>st</sup> December**

	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
Land and buildings	470	525	600	615
Plant and equipment	642	607	555	503
Stock	200	155	115	82
Debtors	154	119	89	61
Prepayments	15	12	10	9
Bank	1	5	6	46
<b>Total assets</b>	<b>1,482</b>	<b>1,423</b>	<b>1,375</b>	<b>1,316</b>
Creditors	55	50	45	30
Taxation	50	45	42	37
Proposed dividends	30	27	30	25
Accruals	11	10	8	7
12% debentures	375	375	375	375
Ordinary share capital	500	500	500	500
Retained profits	461	416	375	342
<b>Total financing(equity &amp; Liabilities)</b>	<b>1,482</b>	<b>1,423</b>	<b>1,375</b>	<b>1,316</b>

**Relevant ratios**

	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
Current ratio	2	1.76	2.20	2.53
Debtors turnover	9.84	9.60	8.17	7.33
Fixed assets turnover	0.54	0.62	0.75	0.90
Return on equity	6.65	7.20	7.42	7.80
Debt to equity ratio	0.45	0.43	0.41	0.39

**Required:**

- i) Determine Nyege Nyege Ltd common size statements to assess its performance over the four years.(18 marks)
- ii) Comment on the performance of Nyege Nyege Ltd (7 marks)

#### **QUESTION FOUR**

KK Ltd has a balance sheet as at 30<sup>th</sup> December 2019 as follows;

Fixed asset		610,000
<b>Less</b>		
Depreciation		264,000
		346,000
Stock		210,000
Debtors		315,000
Bank balance	48,000	573,000
<b>Less</b>		
Current liabilities		
Creditors		108,000
Proposed dividends	20,000	445,000
		791,000
<b>Financed by</b>		
Issued capital		600,000
General reserves		150,000
Retained earnings		41,000
		791,000

The following information relates to the forecast for the next six months

(i) Sales

Jan	Feb	March	April	May	June
250,000	250,000	300,000	400,000	540,000	300,000

It is estimated that;

(a) 60% of the sales will be credit sale.

(b) Of the debtors 80% will pay in the month following the sale and 20% in the next month.

However, debtors of 2019 are expected to pay in January.

(ii) The purchases for the next six months will be as follows; there will be no purchases on cash.

Jan	Feb	March	April	May	June
300,000	300,000	400,000	500,000	500,000	500,000

(iii) Suppliers will be paid in the month following the delivery and the creditors of 2019 are to be paid in February.

(iv) The company will pay rent amounting to Shs.600,000 in march for the year.

(v) Wages per month will be Shs.54,000 except for the month of May and June where they will be higher by Shs.5,000 due to overtime.

(vi) The proposed dividend of 50,000 will be paid in February 2020

- (vii) Overheads totaling to Shs. 10,000 will be paid per month, payable in the month they are incurred.
- (viii) Asset of Shs. 80,000 will be purchased in January
- (ix) Depreciation is provided on all fixed assets at 20% on reducing balance.
- (x) Stock of Shs. 150,000 is expected to remain at the end of June.

**Required:**

**Prepare for KK Ltd;**

- i) Cash budget for the months of January to June 2020 & comment on the results of the cash budget you have prepared **(8 marks)**
- ii) A forecasted statement of profit/loss for the period ended 30<sup>th</sup> June 2020 **(9 marks)**
- iii) A statement of financial Position as at 30<sup>th</sup> June 2020. **(8 marks)**

### **QUESTION FIVE**

a) Stakeholder Analysis is a subject that has attracted a lot of interest and it's a big discussion in many Boardrooms among corporate firms. This was a statement by Mr. Mango in the recent Workshop. Discuss the above statement highlighting the significance of each stakeholder towards Organizational Performance **(8 Marks)**.

b) In order to achieve its major goal of profit maximization, a business depends on the society for inputs like money, workers and skills for its existence and growth. Likewise, the society depends on business for meeting its needs and welfare. This kind of interdependence requires businesses to be socially responsible. However, some people believe that the concept of social responsibility is against the profit motive and most of the classical economists are against the idea of social responsibility.

**Required**

- i) Explain reasons why some businessmen are opposed to the notion of social responsibility. **(5 marks)**
- ii) Discuss why it's important for businesses to be socially responsible and clearly show the role of professional accountants in ensuring that businesses are socially responsible. **(5 marks)**
- c) Discuss the key non-financial aspects that you would take into consideration in assessing the performance of the company. **(7 marks)**



**QUESTION SIX**

A company has two divisions X and Y, and evaluates its managers on ROI criterion. Budgets for the next year are as follows:

	X (\$)	Y (\$)	Total (\$)
Investment	1,200,000	1,000,000	2,200,000
Revenue	600,000	300,000	900,000
Operating expense	(300,000)	(200,000)	(500,000)
Profit	300,000	100,000	400,000

A new investment opportunity has risen and could be adopted by either division. It requires an investment of \$200,000 and promises annual operating profit of \$40,000

***Required:***

- Which division (X or Y) would accept the new project & Why? ( **8 marks**)
- If an RI criterion with minimum ROI of 18% were in use, which division (X or Y) would accept the new project & Why? ( **8 marks**)
- With minimum ROI of 18% should the new project be accepted from the view point of the company as a whole.( **9 marks**)

**END –GOOD LUCK**

