

UGANDA MARTYRS UNIVERSITY, NKOZI & RUBAGA CAMPUS
FACULTY OF BUSINESS ADMINISTRATION AND MANAGEMENT

CODE: COR 2201

COURSE: CORPORATE FINANCE 1

SPECIAL/SUPPLIMENTARY EXAM

BAM 11

DATE: 06th/08/2015

Time allowed: 3 hours:

Instructions to Candidates:

Read the following before answering the examination questions.

- 1) Do not write anything on this question paper.
- 2) Attempt four (4) Questions
- 3) Show all the relevant Workings
- 4) Mobile Phones are not allowed in the Examination room

QUESTION 1

- a) An investment whose initial cash outlay is shs 20,000,000/= is expected to generate the following cash flows over its useful life.

<u>Year</u>	<u>Cash flow</u>
1	8m
2	7m
3	9m
4	10m

Determine the Payback period of the above investment (5 marks)

- b) A.K. Ltd is proposing to expand its business by adding another production line. The investment will cost Shs.200M and will realize the following cash inflows over a period of 5 years.

<u>Year</u>	<u>Cash inflow</u>
1	40m
2	60m
3	80m
4	50m
5	70m

The companies required rate of return is 10%. Assess the viability of this investment and advise the company whether it should go ahead to make this investment. (7 marks)

- c) Using the information in (b) above compute the Internal Rate of Return (IRR) for the project (5 marks)
- d) Explain the advantages & disadvantages of using Net Present Value (NPV) in appraising projects. (8 marks).

QUESTION 2

The following information has been made available from the records of JK enterprises for the next six months of 2013

	<u>Jan</u>	<u>Feb</u>	<u>March</u>	<u>APRIL</u>	<u>May</u>	<u>Jun</u>
Budgeted sales in units	400	420	450	500	480	470
Closing stock in units	100	150	130	80	120	140

JK enterprises anticipated to sell each unit at 200/= every month. The company had opening stock of finished goods amounting to 50 units.

JK enterprises planned to reserve closing stock of finished goods at the end of the month and are part of the produced units.

Information got from the production manager indicates that each unit requires the following composition of cost to be completed.

Cost element	Unit cost in shilling
Raw materials 5litres @ 200 each	1,000
Labour costs 10 hours @ 50 each	500
Variable overhead costs 20% of labour costs	<u>100</u>
Total	<u>1,600</u>

The store's manager states that the company's policy is to reserve raw materials equivalent to 5% of the next month's requirement because the suppliers are unreliable. Closing inventory of raw materials in June will be the same figure as in May.

The raw materials are purchased from the suppliers at 150/= per litre

Required: Prepare the following functional budgets

- i. Sales budget (3 marks)
 - ii. Production budget(4 marks)
 - iii. Raw materials utilization/ cost budget(4 marks)
 - iv. Labor cost budget(4 marks)
- b) Explain the advantages and disadvantages of budgeting within an organization. (10 marks)**

QUESTION 3

(a) Explain the concept of time value of money and clearly bring out its relevance on financing and investment decisions (6 marks)

b) Mr. Ondoga recently won ten million shillings from a lottery and he intends to save some of it towards the university education of his son 8 years later. He will deposit a certain amount in a bank, which gives interest at 14% per year. How much should he deposit now to withdraw 7, 000,000= (seven million) after 8 years? (4 marks)

c) You have been depositing 100,000/= on your savings account every year. The interest rate earned is 2% compounded annually. How much will you have on your account at the end of the 10 years? (5 marks)

d) Consider a single sum of money of 800,000/= deposited into a fixed deposit account earning 4% interest compounded annually. How much would have your deposit have grown by the end of 5 years? (5 marks)

e) Assuming that you have been given a 500,000/= tax free gift and have decided to invest in a 2 year certificate of deposits which compounds interest semi-annually, how much will you have when the deposit matures if the interest rate is 14%? **(5 marks)**

QUESTION 4

a) Discuss the dangers of excessive and inadequate working capital to an organization **(6 marks)**

b) Explain the factors that would determine the level of investment in working capital in an organization **(5 marks)**

c) KK (U) Ltd has the following figures from its most recent accounts.

Receivables4, 000,000=

Trade payables.....2, 000, 000=

Average raw materials inventory.....1, 000,000=

Average WIP inventory.....1,300,000=

Average finished goods inventory.....2,000,000=

Sales (80% on credit)..... 30, 000,000=

Material usage----- 20,000, 000=

Material purchases (all on credit) -----18,000,000=

Production cost----- 23,000,000=

Cost of sales-----25,000,000=

Calculate the following working capital ratios and the cash operating cycle for KK (U) Ltd and explain its significance: **(4 marks for calculating the cash operating cycle)**

1) Raw material inventory holding period **(1 mark)**

2) Work in progress (WIP) holding period **(1 mark)**

3) Finished goods inventory holding period **(1 mark)**

4) Trade receivable days **(1mark)**

5) Trade payables days **(1 mark)**

6) Inventory turnover **(1 mark)**

c) Explain the meaning of the following terms as used in inventory management.

i) Lead time **(1 mark)**

ii) Re-order Level **(1 mark)**

iii) Re-order Quantity **(1 mark)**

iv) Economic Order Quantity (EOQ) **(1 mark)**

QUESTION 5

a) Firms usually require short and long term finance to carry out their operations/ activities. Clearly discuss the various sources of finance that a firm may employ giving at least two advantages and disadvantages for each source mentioned. **(15 marks)**

b) Discuss the reasons as to why companies merge together and explain the benefits of merging. **(10 marks)**

QUESTION 6

- a) Explain the role of capital markets in an economy(**15 marks**)
- b) Write short notes on each of the following
 - i) Money markets **(2 marks)**
 - ii) Capital markets **(2 marks)**
 - iii) Primary market **(2 marks)**
 - iv) Secondary market **(2 marks)**
 - v) Over – the counter markets **(2 marks)**

END –GOOD LUCK