

UGANDA MARTYRS UNIVERSITY

FACULTY OF BUSINESS ADMINISTRATION AND MANAGEMENT

Department of Accounting and Finance

CORPORATE FINANCE I

CODE 2205

END OF SEMESTER II EXAMINATION

NKOZI II, LUBAGA & MASAKA

BSC(A&F), BAM II & LUBAGA BAM II

Date: 16th May 2023

Duration: 3 hrs

Instructions

1. Do not write anything on the question paper
2. Attempt any **four**(4) questions.

Question One

- (a) A Rational person would rather have money now than later, why is that so?
(6 marks)
- (b) Your employer has resolved to buy a plot worth UGX 160,000,000 in the next three years. Determine the amount that he should deposit with the bank now if their interest rate is 24% per annum?
(6 marks)
- (c) A lecturer borrows a 3-year loan of \$ 10,000 at 9% interest from UMU to buy a car. If UMU requires three equal end of year repayments;
Required:
What is the annual instalment and also generate the Loan Amortization Schedule for the Lecturer?
(10 marks)

Loan Amortization Schedule				
End of Year	Payment	Interest	Principal Repayment	Outstanding Balance
0				10,000
1				
2				
3				0

- (d) Explain any two(2) areas where knowledge about compounding and discounting can be applied.
(3 Marks)

Question Two

- (a) What is Capital Budgeting and describe the Capital Budgeting Process?
(6 marks)
- (b) How can the probability theory be utilized in analyzing risk of investment projects? Illustrate
(6 marks)
- (c) A company is considering two mutually exclusive projects and uses the Certainty Equivalent factor Approach to analyse their viability.

Years	Project 1		Project 2	
	Cash flows	Certainty Equivalent factor	Cash flows	Certainty Equivalent factor
0	-30,000	1.00	-40,000	1.00
1	15,000	0.95	25,000	0.90
2	15,000	0.85	20,000	0.80
3	10,000	0.70	15,000	0.70
4	10,000	0.65	10,000	0.60

Required:

- (i) Which project should be accepted, if the risk- free rate is 5 percent.
(10 marks)
- (ii) What are the advantages of using the certainty Equivalent factor approach above in evaluating investments.
(3 marks)

Question Three

- (a) It may be difficult to separate finance functions from production, marketing and other functional areas of a firm, however the finance decisions do affect the performance of a firm.

Required:

Explain the major four(4) finance decisions and give the relevance of each decision in the performance of a firm. (08 marks)

- (b) Differentiate between wealth maximization and profit Maximization objectives of a firm. Advise which of these two objectives would be ideal for an organization like UMU to achieve as its objective and state reasons why. (8 marks)

- (c) Corporate finance is concerned with management of finances a Corporation or organization or firm. An organisation can be a Sole Proprietorship business, a Partnership business or a Corporation organisation.

Required:

Discuss the advantages a Corporation Organisation enjoys over a sole proprietorship business. (9 Marks)

Question Four

- (a) What are the repercussions if the firm has minimal(Paucity) working Capital? (4 Marks)

- (b) Explain the three generally recognized motives for holding cash by any business unit. (4 Marks)

(b) BADA Ltd is a new private financial institution operating in Bweya district. It has been operating well for the past two years but later gave out credit to some clients who intentionally refused to pay back. You happen to be a new credit officer in this company and you do not want the same scenario to re-occur

Required:

Suggest five possible mechanisms that you would use to handle credit defaults. (4 marks)

- (c) Discuss Four(4) short -term sources of financing for working capital purposes in a firm and four(4) sources of long-term capital for a firm. (13 Marks)

Question Five

Write notes on any three(3) of the following: (25 Marks)

- Islamic Banking and Conventional modes of Finance
- Two - bin system and ABC analysis as inventory control technics
- Economic Order Quantity(EOQ) model and Just-in-time (JIT) purchasing
- Comparative and Vertical analysis of Financial Statements.
- Differences between Traditional finance and Behavioural finance
- Cooperative Organization formation and objectives

Question Six

- (a) Define Financial Statement Analysis? (3 marks)
 (b) Analysis of financial statements is very important due to the wide spread interest of various parties in the financial results of a business unit.

Required:

Who are the users of financial ratios and which ratios would they be interested in and why? (12 marks)

- (c) The financial statements of BAM Ltd dealing in Tours for the year ended 2021 is as presented below:

Statement of Financial Position (Balance Sheet) as at 31st Dec 2021

Assets		Capital & Liabilities	
Cash	4,200,000	Creditors	16,000,000
Debtors	21,000,000	Bills Payable	8,400,000
Stock	29,400,000	Expenses Outstanding	2,400,000
Net Fixed Assets	63,000,000	Provision for tax	6,800,000
Goodwill	8,400,000	Long-term debt	50,000,000
		Preference Share capital	16,800,000
		Equity Share Capital	8,800,000
		Reserves	16,800,000
	126,000,000		126,000,000

Income Statement as at 31st Dec 2021

Sales: Cash	16,800,000
Credit	67,200,000
	84,000,000
Cost of Sales	50,400,000
Gross Profit	33,600,000
Less Operating Expenses	
Selling & General Expenses	8,400,000
Depreciation	2,940,000
Interest on long-term debt	2,520,000
	13,860,000
Earnings Before taxes	19,740,000
Taxes	5,922,000
Earnings after taxes	13,818,000
Less Preference Dividends	504,000
Earnings available to shareholders	13,314,000
Add reserves as at Jan 1 st 2021	5,460,000
	18,774,000
Less Ordinary Share dividends	4,756,000
Reserves at December 31 st 2021	14,018,000

Required:

Fill in the following table. The first entry is done for your guidance and the table shows the ratios relating to the year 2021

(i)	Current ratio	<u>Current Assets</u> Current Liabilities	<u>54,600,000</u> 33,600,000	= 1.625
(ii)	Acid test ratio			
(iii)	Stock turnover			
(iv)	Debt Equity ratio			
(v)	Net profit margin			
(vi)	Interest Coverage ratio			

END

**Sample Present Value Tables.
Present Value of \$1**

Year	4%	5%	6%	7%	8%	9%	10%	11%	12%	15%
1	0.962	0.952	0.943	0.935	0.926	0.917	0.909	0.901	0.893	0.870
2	0.925	0.907	0.890	0.873	0.857	0.842	0.826	0.812	0.797	0.756
3	0.889	0.864	0.840	0.816	0.794	0.772	0.751	0.731	0.712	0.658
4	0.855	0.823	0.792	0.763	0.735	0.708	0.683	0.659	0.636	0.572
5	0.822	0.784	0.747	0.713	0.681	0.650	0.621	0.593	0.567	0.497
6	0.790	0.746	0.705	0.666	0.630	0.596	0.564	0.535	0.507	0.432
7	0.760	0.711	0.665	0.623	0.583	0.547	0.513	0.482	0.452	0.376
8	0.731	0.677	0.627	0.582	0.540	0.502	0.467	0.434	0.404	0.327
9	0.703	0.645	0.592	0.544	0.500	0.460	0.424	0.391	0.361	0.284
10	0.676	0.614	0.558	0.508	0.463	0.422	0.386	0.352	0.322	0.247
11	0.650	0.585	0.527	0.475	0.429	0.388	0.350	0.317	0.287	0.215
12	0.625	0.557	0.497	0.444	0.397	0.356	0.319	0.286	0.257	0.187
13	0.601	0.530	0.469	0.415	0.368	0.326	0.290	0.258	0.229	0.163
14	0.577	0.505	0.442	0.388	0.340	0.299	0.263	0.232	0.205	0.141
15	0.555	0.481	0.417	0.362	0.315	0.275	0.239	0.209	0.183	0.123
16	0.534	0.458	0.394	0.339	0.292	0.252	0.218	0.188	0.163	0.107
17	0.513	0.436	0.371	0.317	0.270	0.231	0.198	0.170	0.146	0.093
18	0.494	0.416	0.350	0.296	0.250	0.212	0.180	0.153	0.130	0.081
19	0.475	0.396	0.331	0.277	0.232	0.194	0.164	0.138	0.116	0.070
20	0.456	0.377	0.312	0.258	0.215	0.178	0.149	0.124	0.104	0.061

Present Value of an Annuity of \$1

Years	4%	5%	6%	7%	8%	9%	10%	11%	12%	15%
1	0.962	0.952	0.943	0.935	0.926	0.917	0.909	0.901	0.893	0.87
2	1.886	1.859	1.833	1.808	1.783	1.759	1.736	1.713	1.69	1.626
3	2.775	2.723	2.673	2.624	2.577	2.531	2.487	2.444	2.402	2.283
4	3.63	3.546	3.465	3.387	3.312	3.24	3.17	3.102	3.037	2.855
5	4.452	4.329	4.212	4.1	3.993	3.89	3.791	3.696	3.605	3.352
6	5.242	5.076	4.917	4.767	4.623	4.486	4.355	4.231	4.111	3.784
7	6.002	5.786	5.582	5.389	5.206	5.033	4.868	4.712	4.564	4.16
8	6.733	6.463	6.21	5.971	5.747	5.535	5.335	5.146	4.968	4.487
9	7.435	7.108	6.802	6.515	6.247	5.995	5.759	5.537	5.328	4.772
10	8.111	7.722	7.36	7.024	6.71	6.418	6.145	5.889	5.65	5.019
11	8.76	8.306	7.887	7.499	7.139	6.805	6.495	6.207	5.938	5.234
12	9.385	8.863	8.384	7.943	7.536	7.161	6.814	6.492	6.194	5.421
13	9.986	9.394	8.853	8.358	7.904	7.487	7.103	6.75	6.424	5.583
14	10.563	9.899	9.295	8.745	8.244	7.786	7.367	6.982	6.628	5.724
15	11.118	10.38	9.712	9.108	8.559	8.061	7.606	7.191	6.811	5.847
16	11.652	10.838	10.106	9.447	8.851	8.313	7.824	7.379	6.974	5.954
17	12.166	11.274	10.477	9.763	9.122	8.544	8.022	7.549	7.12	6.047
18	12.659	11.69	10.828	10.059	9.372	8.756	8.201	7.702	7.25	6.128
19	13.134	12.085	11.158	10.336	9.604	8.95	8.365	7.839	7.366	6.198
20	13.59	12.462	11.47	10.594	9.818	9.129	8.514	7.963	7.469	6.259