

**UGANDA MARTYRS UNIVERSITY, NKOZI CAMPUS**

**FACULTY OF BUSINESS ADMINISTRATION AND MANAGEMENT**

**DEPARTMENT OF ACCOUNTING AND FINANCE**

**BACHELOR OF SCIENCE ACCOUNTING AND FINANCE II**

**CODE: 2201**

**COURSE: CORPORATE FINANCE I EXAM**

**DATE: 30<sup>th</sup> April 2019**

**Time allowed: 3 hours:**

**Instructions to Candidates:**

Read the following before answering the examination questions.

- Do not write anything on this question paper.
- Attempt any **Four(4)** Questions.

### Question One

(a) Assuming you have been appointed as a representative of BSC(A&F) in the Universities conference at Protea Hotel, the conference is about sources of finance, Write short notes on the following short-term sources of finance as part of your presentation **(7 marks)**

(i) Counter Trade

(ii) Leasing

(iii) Hire Purchase

(b) What is meant by venture capital? **(3 Marks)**

(c) Explain the steps in the venture capital process. **(5 Marks)**

(d) Explain the important features of venture capital financing **(10 Marks)**

### Question Two

(a) Explain why Capital Budgeting Decision is a Central Decision in any long-term business venture. **( 6 Marks)**

(b) What is capital rationing? What are the conditions and weaknesses of capital rationing? **(6 marks)**

(c) The certainty equivalent factors associated with these cash flows by the investor are 0.90, 0.75, 0.55 and 0.45 respectively. The Risk-Free Rate of return on government treasury bills is 10% while the firm RRR is 12%. Determine the NPV of investment under conditions of risk and after adjusting for risk comment on the results. **(13 Marks)**

Year	Cash Flows
0	(200m)
1	60m
2	80m
3	70m
4	75m

### Question Three

Suubi Limited had the following performance in year ended December 2016 and 2017

#### Suubi Limited Statement of Financial Performance ( Income Statement)

	Shs."000"	Shs."000"	Shs. "000"	Shs. "000"
Years	2016		2017	
Revenue		160,000		240,000
Cost of sales				
Opening inventory	50,000		45,000	
Add: Purchases	<u>100,000</u>		<u>182,000</u>	
	150,000		227,000	
Less: closing Inventory	<u>30,000</u>	<u>120,000</u>	<u>35,000</u>	<u>192,000</u>
Gross profit		40,000		48,000
Less: operating expenses				
Selling and administration	2,000		6,000	
Interest charge	<u>8,000</u>		<u>6,000</u>	
		<u>10,000</u>		<u>12,000</u>
Profit before tax		30,000		36,000
Tax		<u>10,000</u>		<u>10,800</u>
Net profit		20,000		25,200

#### Suubi Limited Statement of Financial Position

Years	2016		2017	
	Shs. "000"	Shs. "000"	Shs. "000"	Shs. "000"
<u>Fixed Assets</u>				
Non-current Assets		6,000		42,000
<u>Current Assets</u>				
Inventory	45,000		46,500	
Accounts receivables	75,000		60,000	
Bank	<u>15,000</u>	<u>135,000</u>	7,500	<u>114,000</u>
Total Assets		141,000		156,000
Shareholders Equity & liabilities				
<u>Liabilities</u>				
Trade payables		15,000		30,000
Non -current Liabilities				
Long term loan		<u>13,500</u>		<u>10,200</u>
Total liabilities		28,500		40,200
<u>Equity</u>				
Share capital		81,000		70,800
Retained earnings		31,500		45,000
Total liabilities and equity		141,000		156,000

Required:

- (a) Carry out an analysis of the profitability, Efficiency, liquidity and leverage position Suubi Limited for the given years and comment on the performance of the firm.  
**(15 marks)**
- (b) Why may a current ratio be misleading as an indicator of the liquidity position of a firm.  
**(5 Marks)**
- (c) Explain any four(4) limitations of ratio analysis in evaluating financial health of a company.  
**(5 Marks)**

**Question Four**

- (a) With examples differentiate between independent investments, mutually exclusive investments and contingent investments,  
**(6 Marks)**
- (b) If you are to appraise two mutually exclusive investments using either the net Present Value(NPV) or the Internal rate of return(IRR) techniques, Which of the two techniques would be the most ideal to use and why?  
**(6 Marks)**

- (c) Masaba Ltd. has a project with the following cash flows.

Year	Cash Flows (\$)
0	-400,000
1	180,000
2	180,000
3	180,000

- (i) Compute the internal rate of return(IRR) if the appropriate discount rate is thirteen percent. Advise if the project should be accepted.  
**(10 Marks)**

### Question Five

(a) Discuss the routine functions of a financial manager.

**( 7 Marks)**

(b) Tom is to save USD 9,500 at the beginning of each year for three years. If interest is paid at 11%. What is the present value of Tom's total savings?

**( 6 Marks)**

(c) If you deposited Ugx. 4,600, 000 in a bank, which is paying 12% interest on a two(2) year time deposit, how much would your deposit grow to at the end of the two years if interest is calculated twice a year?

**( 6 marks)**

(d) Mayimuna is travel to India for her MBA studies and is to decide whether to receive her pocket money from her Dad today of USD 3,200 at once or to receive yearly instalments of USD 1,500 at the end of each year for three years. Assume interest is paid at 10%. Advise Mayimuna on which should be the best option and why.

**( 6 Marks)**

### Question Six

(a) Explain how you would answer the question of how much working capital a firm should keep and how it should be financed? Why is it important that the financial manager handles this correctly?

**( 10 Marks)**

b) Your associate at university went into business immediately after graduation and he has reasonably progressed ever since. However, he has not put in place cash plans for his business and has approached you for advice as an expert in financial management. He has provided you with the following information:

Forecast of sales for the first six months of sales in (Ugx. '000').

January	February	March	April	May	June
62,500	62,500	75,000	100,000	135,000	75,000

60% of the sales will be credit sales, of the debtors, 80% will pay in the month following the sale and 20% in the month there after. However, debtors of the previous years are expected to pay in January. Their amount is Ugx. 177,185,500.

The purchases for the next six months will be as follows and will not be on cash basis in (Ugx. '000').

January	February	March	April	May	June
75,000	75,000	100	125,000	125,000	125,000

Suppliers will be paid in the month following the delivery and the creditors of the previous year amounting to Ugx.60,750,000 will be paid in February. The company will pay rent amounting to Ugx.70, 000,000 in March for the year.

Wages per month will be Ugx. 15, 000,000 per month expect for the months of May and June where they will be higher by Ugx.5, 000,000 due to over time.

The proposed dividends of Ugx.7, 500,000 will be paid in the month of February. Over heads totaling to Ugx. 10, 000,000 will be paid per month.

Assets of Ugx. 1,000,000 will be purchased in the month of January. Depreciation is provided on all fixed assets on a reducing balance method.

The Balance as at 31<sup>st</sup> December, the previous year was Ugx. 27,000,000.

Required:

Prepare a cash budget for the business and comment on the results.

**( 15 Marks)**

- **END** -