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

DATE: SATURDAY 7th OCTOBER 2023 TIME: 9:00 AM- 12:00 NOON (3 Hours)

Instructions:

(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

QUESTION ONE

The following information relates to the draft financial statements of Liz (U) Ltd for the year to 31 December 2022 together with comparative figures for the year to 31 December 2021.

Liz (U) Ltd

Profit/loss statement for years ended

	31-Dec-2022 UGX '000'	31-Dec-2021 UGX'000'
Turnover	2,400,000	2,500,000
Cost of sales	(1,440,000)	(1,800,000)
Gross Profit	960,000	700,000
Selling & Distribution costs	(495,000)	(175,000)
Administration	(125,000)	(85,000)
Profit Before Taxation	1,580,000	960,000
Taxation	(10,000)	(150,000)
Profit After Taxation	1,570,000	810,000
Dividends	(150,000)	(80,000)
Retained Earnings for period	**1,420,000**	**730,000**

Liz (U) Ltd

Statement of Financial Position as at

	31-Dec-2022 UGX '000'	31-Dec-2021 UGX'000'
Non-current assets:		
Land & Buildings	150,000	250,000
Plant & Equipment	800,000	1,280,000
Goodwill	200,000	200,000
	1,150,000	**1,730,000**

Current assets:		
Inventories	450,000	800,000
Trade receivables	190,000	470,000
Bank	210,000	
	850,000	1,270,000
Total Assets	**2,000,000**	**3,000,000**
Equity & Liabilities		
Ordinary Share Capital (UGX 1,000 each)	600,000	600,000
Retained Earnings	260,000	100,000
	860,000	700,000
Long term Liabilities	510,000	1,170,000
Current Liabilities		
Trade Payables	330,000	620,000
Other creditors	300,000	510,000
Total Equity & Liabilities	**2,000,000**	**3,000,000**

Liz (U) Ltd is an established manufacturer of building tools. The directors are concerned with the financial performance and financial position of the company. It has been established that profitability is below that of other companies in the same sector. Similarly, other areas of financial performance and financial position are relatively poor.

Required:

(a) As Financial Analyst of the company you have been tasked to appraise the performance of Liz (U) Ltd. For each of the following areas you are to compute the key ratios and explain contributing factors for their trends.

(i) Profitability **(6marks)**

(ii) Liquidity **(6 Marks)**

(iii) Gearing **(5 Marks)**

(iv) Activity/ efficiency**(5 marks)**

(b) Explain some of the problems of using financial ratios as a basis for making economic decisions.(**3 Marks**)

QUESTION TWO

Banakampala trader's deals in commodity trade exporting grains to Asia. After detailed analysis of their operating environment, they have obtained the following picture concerning their operations for the six months of 2023. This survey was completed on December 31st 2022.

(i) Sales for the month of January to June will be in shillings

January	500m	April	600m
February	400m	May	700m
March	500m	June	760m

The corresponding sale figures for November and December 2022 were Shs. 600m and 700m respectively.

(ii) In accordance with the present credit policy, 10% of the sales will be on cash basis while 90% will be credit. The credit sales will be collected as 90% in the following month and the remaining 10% in the next following month.

(iii) The suppliers for materials will be offered n/30 credit terms and all purchases of raw materials made on the same terms. the anticipated purchases are: -

Month	Shs.
January	160m
February	200m
March	240m
April	280m
May	300m
June	300m

The purchase for December 2022 were Shs 200m.

(iv) Wages and other expense will be settled in the month in which they are incurred. The forecasted level of this cost is: -

Month	Wages (Shs.)	Other costs (Shs.)
January	160	100m
February	160m	100m
March	180m	100m
April	180m	100m
May	190m	100m
June	200m	100m

(v) Other anticipated expenditures are: -

- Payment of Shs. 300m and Shs.100m in February and march in respect to additional vehicles.
- Shs. 40m for dividends in march and June respectively.
- Payment of annual taxes of Shs. 60m in January and April respectively.

(vi) There will be no other receipts and payments except the above.

Required:

i) Prepare cash budget for Banakamapala traders Ltd for the period of January to June 2023.**(18 marks)**

ii) Comment on the cash budget for Banakampala traders Ltd **(7 marks)**

QUESTION THREE

Furniture Limited manufactures office chairs for different categories of clients. From the information provided below, you are required to analyse the cost and sales variances and prepare an operating statement incorporating the result of your analysis.

Standard/Budgeted data:

Unit variable costs:		
- Direct material	6 metres at 50/= per meter	= 300
- Direct labour	2 hours at 80/= per hour	= 160
- Variable overhead	60/= per direct labour hour	= 120
		580

Budgeted fixed overhead for the year UGX 250,000 and the standard selling price is 700/= per unit.

Furniture Ltd plans to produce 5,000 units and the company's budgeted operating statement is shown below:

Furniture Ltd budgeted operating statement

	UGX
Sales (5,000 units x 700)	3,50,000
Less cost of sales:	
Variable production costs (5,000 x 580)	2,900,000
Budgeted contribution	600,000
Less fixed factory overhead costs	250,000
Budgeted profit	**350,000**

Furniture Ltd's actual results are presented in the actual operating statement below:

Sales (5,500 units x 680/=)					3,740,000
Less cost of sales:					
Direct materials	32,000 1,440,000	metres	x	45/=	
Direct labour cost	12,000 900,000	hours	x	75/=	
Variable overheads	12,000 780,000	hours	x	65/=	3,120,000
Actual contribution					620,000
Less fixed factory overhead costs					230,000
Actual profit					390,000

Required: Calculate all the relevant variances and prepare a statement that reconciles the budgeted and actual profit figures. **(25 marks)**

QUESTION FOUR

The financial statements below relate to Kacumbali Ltd, a company started by MBA student's class of 2016.

Kacumbali Ltd. Profit /loss account for the years ended 31st December

All figures in us dollars

	2019	2018	2017	2016
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

Kacumbali Ltd. SFOP for the years ended 31st December

	2019	2018	2017	2016
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
Total assets	**1,482**	**1,423**	**1,375**	**1,316**
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
Total financing(equity & Liabilities)	**1,482**	**1,423**	**1,375**	**1,316**

Relevant ratios

	2016	2017	2018	2019
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) Using 2016 as the base year carry out an index analysis of Kacumbali Ltd financial statements to assess its performance over the four years & comment on the performance of the company.**(15 marks)**

ii) As a financial analyst identify any other relevant information that is not portrayed by the above financial statements that would make your analysis more meaningful. **(5 marks)**

iii) In your view as a financial analyst, what are the arguments that explain why companies may feel an obligation to respond to broad social commitments? **(5 Marks)**

QUESTION FIVE

The following data relating to the energy expenditure and output has been obtained from XYZ Ltd records in the year 2023

Month	Energy expenditure$	Output in tonnes
Jan	106	20
Feb	138	22
March	158	25
April	172	26
May	120	21
June	142	23
July	184	28
Aug	102	20
Sept	164	25
October	192	29

Required

i) Determine the regression line that relates the energy expenditure with the output **(13 marks)**

ii) Using the regression line estimate the energy expenditure in the month of November if output is planned at 27 tonnes. **(3 marks)**

iii) Determine the forecasted expenditure when the output is at 20 tonnes & determine the error term. **(4 marks)**

iv) Explain the key determinants of a good forecast.**(5 marks)**

QUESTION SIX

The following information relates to budgeted operations of Division X of a manufacturing company.

	$
Sales (50,000 units at $8)	400,000
Less: Variable costs@ $6 per unit	300,000
Contribution Margin	100,000
Less: Fixed costs	75,000
Divisional Profit	25,000

The amount of divisional investment is $ 150,000 and the minimum desired rate of return on the investment is the cost of capital of 20%.

Required:

i. Calculate divisional expected return on investment(ROI) **(5 marks)**

ii. Calculate divisional expected residual income (RI) **(5 marks)**

iii. Comment on the result of (i) and (ii) **(5 marks)**

iv. The divisional manager has the opportunity to sell 10,000 units at $7.50 per unit. Variable cost per unit would be the same as budgeted, but fixed costs would increase by $5,000. Additional investment of $20,000 would be required. If the manager accepts the special order, by how much and in what direction would his residual income change? **(5 marks)**

v. Explain the advantages of using return on investment in measuring divisional performance and point out its limitations.**(5 marks)**

END –GOOD LUCK