UGANDA MARTYRS UNIVERSITY

FACULTY OF BUSINESS ADMINISTRATION AND MANAGEMENT

SUPPLIMENTARY EXAMINATION FOR THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION

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

DATE: FRIDAY 19th JULY 2024 TIME: 9:30 AM- 12:30 PM (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

Go-Happy Investments (GHI) operates a chain of 18 hotels in Uganda. GHI issued its consolidated financial statements for the year ended 31 March, 2022 recently. The directors of GHI are due for retirement and resolved to dispose of the hotel business. This would enable them concentrate on their personal businesses. To this effect, the management of Jmex Hotel Ltd (JHL), a foreign five-star hotel with its headquarters in Europe, has expressed interest to take over all the 18 hotels.

You have been contracted by the management of JHL to offer consultancy services with regard to the performance of GHI hotels. The directors of JHL are concerned as to why the management of GHI could resolve to dispose of the chain of 18 hotels that are seemingly doing well.

You obtained the following information from the management of GHI in relation to the hotel business for the year ended 31 March, 2021 with comparatives for 2022.

	2022	**2021**
	Shs'million'	Shs'million'
Revenue	56,475	43,920
Cost of sales	(52,965)	(41,220)
Operating costs	(945)	(1,044)
Finance costs	(450)	(360)
Income tax expense	(630)	(468)
Profit for the period	1,485	828
Retained earnings at start	12,420	9,396
Dividends paid	(360)	(288)
Retained earnings at close	13,545	9,936
Property, plant & equipment	26,100	20,700
Intangible assets	4,500	3,960
Inventories	2,115	1,656
Trade & other receivables	540	468
Cash	2,070	432
Share capital	6,750	5,400
Retained earnings	13,545	9,936
16% bank loans	7,515	5,796
Trade & other payables	13,365	9,828
Hotel tax	900	1,296

You established that six of the GHI hotels had been acquired during the year 2021.

The key performance indicators in the hotel industry in Uganda for the years 2021 and 2022 are as follows:

Debt: equity ratio	1.20
Dividend cover (times)	2.0
Dividend pay-out ratio (%)	72
Current ratio	1.0
Return on assets (%)	16

Required:

(a) Prepare a report, to the directors of JHL, analyzing the position and performance of the GHI hotels based on the information provided. The report should be based on comparisons with the key industry ratios. **(20 marks)**

(b) Explain the limitations of the use of industry comparatives in financial analysis. **(5 marks)**

QUESTION TWO

XYZ a Multinational Company that manufactures Mineral water. The company has hired you to prepare their half-year operational budgets for the period stated below. You have been provided with the following information.

(a).Budgeted sales units are as follows:

	2021		2022					
	NOV	**DEC**	**JAN**	**FEB**	**MAR**	**APR**	**MAY**	**JUNE**
Budgeted sales units	20,000	30,000	35,000	18,000	40,000	30,000	45,000	50,0000

The company plans to sell each unit at $12 every month and wants ending inventory to be equal to 10% of the previous month's budgeted sales in units. On 31st December 2021, 5,000 units were on hand. Prepare a sales and production budgets for the company. **(8 Marks)**

(b)Using the sales figures determined in part **(a) above** and the additional information **given below**, prepare a six months cash budget for the company & comment on the cash position of the company. **(17 Marks)**

	2021		2022					
	NOV	**DEC**	**JAN**	**FEB**	**MARCH**	**APRIL**	**MAY**	**JUNE**
Purchases	50,000	70,000	100,000	120,000	140,000	150,000	160,000	170,000
Transport	10,000	12,000	15,000	20,000	25,000	28,000	12,000	20,000
Maintenance	10,000	12,000	25,000	15,000	10,000	25,000	27,000	10,000
Factory Rent	200,000	200,000	220,000	230,000	230,000	250,000	260,000	270,000
Sundry expenses			20,000		26,000			

You are also told the following

a) The company had a cash balance of 35,000 on 31st December 2021.
b) A discount of 10,000 and 20,000 was received in the months of March and May respectively.
c) Sales are 70% cash and 30% credit. The debtors are allowed two months after the month of Sale.
d) Purchases are paid two months in arrears
e) 60% of transportation costs are paid in the current month whereas 40% in the following month.

f) The company vehicles and machines are maintained monthly, however the payment is made one month later.
g) Factory rent is paid one month in advance.
h) Sundry expenses are paid three months after they are incurred.

QUESTION THREE

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

Nyege 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

Nyege Ltd. Balance sheet 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) Determine Nyege Ltd common size statements to assess its performance over the four years.**(18 marks)**

ii) Comment on the performance of Nyege Ltd **(7 marks)**

QUESTION FOUR

a) Examine the key elements of financial analysis. **(5 marks)**

b) Discuss why it's necessary to undertake financial analysis & clearly explain the techniques of financial analysis. **(20 marks)**

QUESTION FIVE

a) Given the following information, compute the firm's free cash flows and the investors' cash flows.**(11 marks)**

Change in current assets	\$25
Operating income	\$50
Interest expense	\$10
Increase in accounts payables	\$20
Change in notes payables	\$30
Dividends	\$5
Change in common stock	\$0
Increase in fixed assets	\$55
Depreciation expense	\$7
Income taxes	\$12

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. **(7 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)	(500,0000
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:

i. Which division (X or Y) would accept the new project & Why? **(8 marks)**

ii. 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)**

iii. 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