INTERNATIONAL UNIVERSITY OF EAST AFRICA
'Learning to Succeed'

FACULTY OF BUSINESS MANAGEMENT

END OF SEMESTER EXAMINATIONS - AUGUST 2025

PROGRAMME: BBA
YEAR/SEM: YEAR 3/SEMESTER 1
COURSE CODE: FIN 3203
NAME: INVESTMENT APPRAISAL AND PORTFOLIO

DATE:
TIME:

INSTRUCTIONS TO CANDIDATES:

SECTION A

Section A is Compulsory

Question 1:

a) Explain the concept of cost of capital and the various categories of cost capital

[8marks]

b) Mabati Uganda Limited (MUL) deals in manufacture and supply of iron sheets in Uganda. At its recently concluded Board meeting, it was resolved that the company expands its operations to include production of roofing tiles effective 1st January 2021. The Board however directed that the company's Managing Director should assess the viability of the proposed investment prior to committing funds. It was also resolved that since the project will be financed by both debt and equity, a weighted average cost of capital should be determined and be applied in evaluating the project's viability.MUL has hired you as a financial consultant to help in determining the cost of capital suitable for evaluating the proposed investment. The company currently has a total capital of 24.5Million composed of:

	UGX Million
25% Long term bank loan	6.7
20% preference shares	5.5
Common stock	7.8
Retained profit	4.5

Additional information

1. MUL anticipates that the dividends on ordinary shares will be UShs. 10,000 per share and the market value of the share is

UShs 32,000 per share.

2. The dividends are expected to grow at a rate 8% per year with a tax bracket of 30%.

Required:

1) Compute individual cost of capital **[4 marks]**

2) The weights of each source of capital **[8 marks]**

3) Weighted cost of capital using the book value weights and explain the significance of your answer on the company's financial decisions **[10 marks]**

c) Golobola Group of companies anticipates investing in a project whose current market price return on risky investment of 135 compared with 5% on treasure bills. The company has a beta of 1.9

Required

Calculate the cost of equity of the company
[10marks]

Question 2:

The finance Director has got a proposal to invest in a new project which would cost Multiplex Ltd UGX. 128 million. He has estimated the required rate of return to be 11% p.a. The project is expected to have useful life of six years. For the project to be undertaken, Net Present Value should be positive and Profitability Index should not be less than 1.

Projected Cash flows are as follows;

Year	Cash Follow
1	11 million
2	26 million
3	38 million
4	29 million
5	43 million

	6	11 million

Required: Using NPV and Profitability Index technique of investment appraisal, advise whether Multiplex Ltd should undertake the new project***. (40 Marks)***

SECTION B

Attempt any Three Questions From Section B

Question 1:

a) A trading company had the following balances during the year 2019;

	1 January	31st December
Stock	$ 5,500	$ 6,500
Debtors	$ 3,200	$ 4,800
Creditors	$ 3,000	$ 4,500

Credit Turnover for the year is $ 50,000 and the cost of sales is $ 30,000.

i) Compute the number of days Working Capital is tied up in each of the above items. *(7 marks)*

ii) Compute the operating cycle *(3 marks)*

b) Define Credit Policy and state why would an Organization need a credit policy ***(3 marks)***

c) Several factors should be considered by the management when formulating a credit policy for managing debtors. As a finance Manager State and explain the factor you would consider when designing a credit policy of your Organization. *(7 marks)*

Question 2:

a) Explain the nature of the important decisions in finance showing the likely impact on the organization if each decision was not correctly made. ***[5 mark]***

b) Why is Capital Budgeting decision very important to the business Organization ***(5 marks)***

c) Capital Budgeting decisions are associated with a lot of uncertainty, explain the factors that cause this uncertainty. ***(5 marks)***

d) Define Pay Back Period as a method of Project Appraisal, clearly listing its advantages and disadvantages. ***(5 marks)***

Question 3:

a) Define an International business and clearly show their features. **[3 marks]**

b) Give four reasons why businesses decide to trade internationally. **[5 marks]**

c) Define the term foreign exchange rate risk, use relevant examples. **[3 marks]**

d) State and explain the three categories of exchange rate exposure. **[3 marks]**

e) What are Forward and Future Contracts. Show how they are applied in managing foreign exchange rate risks. **[3 marks]**

f) What are SWAPS and how is it applied in managing exchange rate risks. **[3marks]**

Question 4:

a) Explain the importance of Dividend Decision in financial Management. *(5 marks)*

b) In relation to determination of the amount to pay as dividend, Explain the concept of Residual theory of Dividend. *[5 marks)*

c) GEM is a public Limited liability company, During the year ended 31st December 2022, the company attained a Net profit for the year of $500,000. Besides 20,000 Ordinary shares of 1$ each, the company is also financed by Preference share capital of $100,000 with a fixed rate of interest of 15%. There are two highly profitable projects which the company wants to undertake: Project A, costs $ 50,000 and Project B costs $ 70,000.

Required:

i) Compute the residual dividend to be distributed *(5 marks)*

ii) Compute dividend per share (DPS) for the ordinary shareholders *(5 marks)*

Question 5:

Mr. Tony Kendo is a local investor who is considering either setting up

a Ravage Treatment plant (RTP) or a Risky waste transportation company, (RWTC) Whichever maximizes return and minimizes risk. The plan is to have the company operate in the Western where Uganda has discovered oil and gas reserves. Mr. Kendo has contracted you as a financial management expert to help him with issues of risk and return assessment. He has separately intimated to you that he is desirous to have his new company listed on the Uganda Securities Exchange (USE) in less than three years from now. He thinks this approach will enable him generate more funds for expansion. Mr. Kendo has also provided you with the following information obtained from his investment advisor:

State of the economy Possible returns (Shs '000')

	RTP	RWTC
	Probability	
Strong	200	500
0.20		
Moderate	150	400
0.30		
Weak	100	200
0.50		

Required:

(a) Calculate the risk and return for both RTP and RWTC **(10 marks)**

(b) Explain to Mr. Kendo the:

(i) different types of risks that may affect the realization of returns. **(5 marks)**

(ii) procedures for listing on Uganda Securities Exchange. **(5 marks)**

Question 6:

a) You have a choice of accepting either a five year uniform cash

flow streams or lump sum amounts discounted for five years. The cash flows for the lump sum at time zero is $2,825 and the uniform cash flow is as indicated below.

End of yr.	
1	$700
2	700
3.	700
4.	700
5.	700

Assuming a 11% discount factor, which cash flow alternative would you accept? ***[10 marks]***

b) John Kazimoto places $ 800 in a saving account paying 6% interest compounded annually. He wants to know how much money will be in the account at the end of 5 years. Advise him. ***[5 marks]***

c) Give reasons why organizations should maintain relative amount of cash within their operations and state causes of cash flow shortage. How can the organization solve cash flow problems ***[5 marks]***

Question 7:

a) Define Future Value in relation to time value of money. ***[5 marks]***

b) AO Limited is an investor and they have got shs. 10 million to invest today at an interest rate of 10% per year for a period of five [5] years. If they interest is compounded annually, what would be the future value after five years? ***[5 marks]***

c) Define “Perpetual Annuities” in relation to time value of money. ***[2 marks]***

d) Suppose Anob limited is interested in buying shares from Capital investment Limited which promises to pay an annual dividend of shs. 200,000 per year. Assume a market

rate of interest is 10%, how much would you be willing to pay per share? ***[8 marks]***

Question 8:

KENT Limited is considering to invest in machine in order reduce their operating costs. The Machine will Costs 140 million and its expected to have a useful life of six years only. At the end of six years, it will have a value of sh. 5 million as salvage value. Operating costs over the six years are expected to be 10 millions per year and expected revenue of shs. 50 million is to be realized each year. The tax is 30% . Depreciation is to be calculated by straight line method. The discount rate is 8%. Note, the desired PBP is 4 years, IRR is 9% and a greater than 1 Profitability Index.

Required:

i) Prepare a financial Plan, clearly showing the Accounting profits and the Net cash flows. *(10 marks)*

ii) Evaluate the feasibility of the investment in the Machine using: Pay Back Period Profitability Index and IRR method. ***(10 marks)***

Question 9:

CAPITAL STRUCTURE OF X COY:

ORDINARY SHARE CAPITAL	400,000
RESERVES	240,000
8% PREF. SHARE CAPITAL	100,000
10% DEBENTURES	60,000

Ordinary Shareholders expect Dividend Per Share of $15 and the Market Price per share is $100 which reflects a 15% rate of return, Growth in Equity is 5% p.a. and the Tax rate is 40%.
Determine the weighted cost of capital (WACC) [20 marks]

Question 10:

Total Debt		$273
Total Equity		$250
Total Debt & Owners Equity		$523
Interest rate is	25%	
Tax rate is		30%

Required:

a) Compute the Weights of sources of funds (10 marks)

b) Determine the after tax cost of sources of funds (10 marks)

Question 11:

a) Discuss the external factors that influence Dividend Policy of an organization in its decision making

[**5marks]**

b) Explain what is meant by the following schemes in addressing the dividend questions in an entity: Share re-purchase and stock split and reason for share repurchase in business entity

[5marks]

c) Assuming Kalolo Ltd has a cost of equity 11% rate of return on investment is 12%, and earnings per share is Shs. 12.

Required

Calculate the price per share by Gordon's model if the dividend payout ratios are 10% and 30%

[5marks]

d) The common situation that financial executive is faced with at the end of every financial period, is on the dividend declaration to the

shareholders. The management is required to recommend to the board of directors whether dividends for the period should be declared or not. You have been consulted to review the financial statements and advise on the rational of declaring dividends to the shareholders.

[5marks]

Question 12:

a) Explain the nature and causes of financial distress and how it can be addressed by an organization **[10 marks]**

b) Why do many organizations hoped for corporate restructuring instead of distress restructuring?

[3 marks]

c) Discuss the following short term investments financing and off balance sheet financing can be adopt in financing various financial needs in different business sectors giving a justification of each. **[7 marks]**

i. Treasury Bills,

ii. Commercial papers,

iii. Certificate of deposit,

iv. Bank acceptances