



**FACULTY OF BUSINESS MANAGEMENT**  
**END OF SEMESTER EXAMINATIONS - APRIL 2025**

**PROGRAMME: BBA**

**YEAR/SEM: YEAR 3/SEMESTER 1**

**COURSE CODE: FIN 3203**

**NAME: INVESTMENT APPRAISAL AND PORTFOLIO**

**DATE: 2025-04-22**

**TIME: 9:00AM-12:00PM**

**INSTRUCTIONS TO CANDIDATES:**

1. Read the instructions very carefully
2. The time allowed for this examination is STRICTLY three hours
3. Read each question carefully before you attempt and allocate your time equally between all the Sections
4. Write clearly and legibly. Illegible handwriting cannot be marked
5. Number the questions you have attempted
6. Use of appropriate workplace examples to illustrate your answers will earn you bonus marks
7. Any examination malpractice detected will lead to automatic disqualification.

**DO NOT WRITE ANYTHING ON THE QUESTION PAPER**

## Section A Section A is Compulsory

### Question 1:

Anob Limited is considering to invest in one of the latest machines in order reduce their operating costs. This Machine is Model XX2003 and Costs 150 million, its expected to have a useful life of three years only at the end of which it will have no salvage value. Operating costs over the three years are expected to be 20 millions per year and expected revenue of shs. 220 million are to be realized each year. The tax is 30% . Depreciation is to be calculated by straight line method. The discount rate is 10%.

#### Required.

- a) Using Profitability Index as a method investment appraisal , Advise Anob Limited whether its feasible to invest in the machine. **[15 marks]**
- b) Assume the expected revenue from the Machine declines by 30%, what would be the Profitability Index and should the investment in the machine continue? **[5 marks]**

## Section B Attempt any Three Questions From Section B

### Question 1:

- a) What are financial Markets and who are the players in that market? **[5 marks]**
- b) Using relevant examples, define financial instruments. **[5 marks]**
- c) Give five factors that make financial instruments attractive to any investor. **[5 marks]**
- d) List the types of Instruments found in â??Non-Securities Segmentâ?• of Financial markets.**[5 marks]**

### Question 2:

- a) State and explain reasons for growing Microfinance Institutions despite the existence of development Banks. **[8 marks]**
- b) â??Sound financial activities based on best practices play a decisive role in providing the majority of clients with access to financial services that propel investment, however, there has been more failures than successâ?•. What are the credit risks faced by Microfinance Institutions? **[7 marks]**
- c) Write short notes about the following; **[1 mark @]**
  - i) Credit Institutions
  - ii) Formal banks
  - iii) Micro-Deposit Taking Institutions
  - iv) Non-Deposit Taking Institutions
  - v) SACCOs and Money Lenders

### Question 3:

- a) (i) Define the term â??Specific cost of Capitalâ?• as used in financial management**[4 marks]**  
(ii) Given that the tax rate is 30% and the interest rate is 10%, compute the cost of debt for

the company. **[6 Marks]**

b) GMT Limited has got the overall capital structure of UGX. 200 million. The capital structure has got a break down as follows;

Long term debt	sh. 60 million
Preference share capital	sh. 20 million
Equity share capital	sh. 120 million

Specific cost of capital after tax is as follows;

Long term debt	7.2%
Equity share capital	11.2%
Preference share capital	10%

**Required:**

The Directors of GMT Limited company want to make further borrowings to expand the operations of the company but they are not sure of the current cost of capital. As the Finance Manager, Advise them on the current Weighted Average Cost of Capital since its necessary for the above decision. **[10 marks]**

**Question 4:**

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 5:**

a) You are a financial manager in charge of appraising loan applications. A customer has applied for a six months loan of UGX. 6,000,000/= payable in equal monthly installments. The loan is at interest rate of 12% p. a compounded monthly, payment being due at the end of each month.

**Required;**

Calculate the monthly installment payment necessary to fully amortize the loan in six months and draw up a loan amortization schedule. **[10 marks]**

b) Explain the nature of the important decisions in finance showing the likely impact on the organization if each decision was not correctly made. **[10 mark]**

**Question 6:**

- a) Define Future Value in relation to time value of money. **[3 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 their interest is compounded annually, what would be the future value after five years? **[7 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]**