



UGANDA BUSINESS AND TECHNICAL EXAMINATIONS BOARD

Business and Humanities Certificate Examinations

MAY-JUNE 2020 SERIES

PROGRAMME

NCAF, NCBA

PAPER NAME

ELEMENTS OF BUSINESS FINANCE

PAPER CODE

NCBF122

YEAR I, SEMESTER II

2½ HOURS

MONDAY, 19TH APRIL, 2021

INSTRUCTIONS TO CANDIDATES

1. This paper consists of **two** sections **A** and **B**.
2. Section **A** is compulsory and carries **20** marks.
3. Section **B** consists of **six** questions. Answer only **four** questions from this section.
4. All questions carry equal marks.
5. All answers to each question should begin on a fresh page.
6. **Do not** write on the question paper.
7. All answers and rough work should be done in the official answer booklet provided.
8. Non-programmable electronic calculators may be used for this examination.
9. Read other instructions on the answer booklet.

SECTION A - (20 MARKS)

Answer all questions in this section.

Question One

- (a) State **two** reasons why organizations need finance. (02 marks)
- (b) Define **time value for money** as used in business finance. (02 marks)
- (c) Distinguish between **marginal** and **weighted average** costs of capital. (04 marks)
- (d) Give **two** advantages of net present value technique of project appraisal. (02 marks)
- (e) List **three** costs associated with holding stock. (03 marks)
- (f) State **two** forms of dividends that can be paid to the shareholders. (02 marks)
- (g) Outline **three** sources of long term finances. (03 marks)
- (h) State **two** techniques of inventory management. (02 marks)

SECTION B - (80 MARKS)

Answer only four questions from this section.

Question Two

Star Ltd has been selling its products on cash basis. However, the newly recruited manager introduced the element of credit sells.

- (a) State **six** reasons why the manager introduced credit sells for the company's products. (12 marks)
- (b) Explain **four** costs associated with the newly introduced practice. (08 marks)

Question Three

Opolot won 80 million from a promotion and intends to invest this money in fish farming business for a period of 4 years at a rate of 10% per annum.

- (a) Explain **five** objectives of this business. (10 marks)
- (b) Compute the future value of the investment. (10 marks)

Question Four

Mel Ltd, a company that processes products that consume material R whose annual demand is 4000Kg, ordering cost UGX 300 per order and carrying cost UGX 400 issued preference shares of UGX 2,000 each carrying a dividend of 13%.

Required: Determine the;

- (a) Cost of capital for the company. (04 marks)

- (b) Economic order quantity. (04 marks)
- (c) Number of orders. (04 marks)
- (d) Total ordering cost. (04 marks)
- (e) Total cost of managing stock. (04 marks)

Question Five

- (a) State **three** advantages and **three** disadvantages of payback period technique of project appraisal. (12 marks)
- (b) JAB Co. Ltd is considering to purchase a new machine that has an initial outlay of UGX 4,500,000 and is projected to run for 7 years with the following cash inflows.

Year	Cash inflows (UGX)
1	400,000
2	1,200,000
3	1,500,000
4	1,000,000
5	800,000
6	1,800,000

Required:

Determine the payback period for the machine. (08 marks)

Question Six

The Chief Executive Officer (CEO) of AB Ltd is planning to retain earnings for further reinvestment which other shareholders are opposing.

- (a) State **five** reasons why the CEO insists on retaining earnings. (10 marks)
- (b) Explain **five** disadvantages of CEO's decision to the shareholders. (10 marks)

Question Seven

- (a) State **four** categories of cost of capital. (08 marks)
- (b) Explain **six** determinants of capital structure for a newly established factory in your area. (12 marks)

END