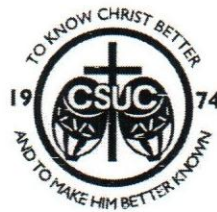


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**CHRISTIAN SERVICE UNIVERSITY COLLEGE
KUMASI, GHANA
CSUC SCHOOL OF BUSINESS
DEPARTMENT OF ACCOUNTING AND FINANCE**

END OF SECOND SEMESTER EXAMINATIONS – 2018/19 ACADEMIC YEAR

LEVEL 200

COURSE CODE&TITLE: CSBG 268 BANKING AND CORPORATE FINANCE

MAY, 2019

70 MARKS

TIME ALLOWED: 2 ½ HOURS.

GENERAL INSTRUCTIONS TO CANDIDATES:

- The paper is divided into four sections A, B ,C and D
- **QUESTION ONE OF SECTION B IS COMPULSORY**
- Answer all the questions in Section A, TWO from Section B
- Answer all questions in Section C and only one from section D
- Circle the correct answers on the objective paper
- Write your index number on top of the question paper and every page of the answer booklet used.
- Submit both question paper and answer sheet.

Examiner: Osei-Anim Reindolph

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SECTION A: MULTIPLE CHOICE (50 MARKS)

ANSWER ALL QUESTIONS IN THIS SECTION

1. What kind of contract gives an investor the right to *sell* an asset in the future?
 - A. Call option
 - B. Put option
 - C. Option premium
 - D. Hedging
2. All the following ratios indicate profitability except
 - A. Return on capital employed (ROCE)
 - B. Net Profit Margin
 - C. Gross Profit Margin
 - D. Quick ratio
3. If an asset has a beta of one. Which of the following can be true about the asset
 - A. It is very risky
 - B. It is risk free
 - C. It is riskier than the market portfolio
 - D. It has the same risk as the market portfolio

A bond is represented by the following information

Use this information to answer questions 4 to 8

\$1000		
(A)		
5yrs		12%
(B)		(C)

4. What does A, B and C represent?

A	B	C
A. Face Value	coupon	maturity
B. Coupon	maturity	par value
C. Par value	maturity	yield to maturity
D. Face value	maturity	coupon
5. What is the coupon payment of this bond?
 - A. \$1200
 - B. \$1120
 - C. \$1020
 - D. \$120
6. How much will a holder of this bond receive in the 3rd year?
 - A. \$1200
 - B. \$1120
 - C. \$1020
 - D. \$120

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7. How much will the holder receive in the 5th year
 - A. \$1200
 - B. \$1120
 - C. \$1020
 - D. \$120
8. If the prevailing market interest rate is 12% then it can be concluded that the bond truly is sold at
 - A. Premium
 - B. Par
 - C. Discount
 - D. Maximum
9. Some projects that a firm accepts will undoubtedly result in zero or negative returns. In the light of this fact, it is best if the firm
 - A. Adjusts its hurdle rate upwards to compensate for this fact
 - B. Adjusts its hurdle rate downwards to compensate for this fact
 - C. Does not adjust its hurdle rate up or down regardless of this fact
 - D. Raises its price to compensate for this fact
10. Which of the following statements is incorrect regarding a normal project?
 - A. If the NPV of a project is greater than 0, then its PI will exceed 1
 - B. If the IRR of a project is 8% its NPV using a discount rate K, greater than 8% will be less than 0
 - C. If the PI of a project equals 0, then the projects initial cash out flow equals the PV of its cashflows
 - D. If the IRR of a project is greater than the discount rate K, then its PI will be greater than 1
11. All the following are qualities of marketable securities except
 - A. Affordability
 - B. Liquidity
 - C. Yield
 - D. Safety
12. All the following are components of five C's in Credit analysis except?
 - A. Character
 - B. Capacity
 - C. Component
 - D. Condition
13. Letters of Credit are contingent liabilities. This means that they.....
 - A. are under compulsion to occur
 - B. occur on the left hand side of the balance sheet
 - C. bear no resemblance with current liabilities
 - D. may or may not occur

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14. Miss Shetty wants to retire with GH¢100,000 after 5 years. If the bank offers a return of 12% p.a, what should be a onetime deposit she is required to do today.
- A. GH¢56,742.686
 - B. GH¢55,684.283
 - C. GH¢70,312.123
 - D. GH¢54,298.134
15. Which of the following is not a fundamental concept in corporate finance?
- A. Net Present Value
 - B. Double-entry book keeping
 - C. Business cycle
 - D. Relationship between Risk and Return
16. What is the stakeholder view of the firm?
- A. Shareholders should eventually be return their stake in the firm
 - B. The firm must honor its wider social obligations as well as making money
 - C. The only obligation of the firm is to maximize profit
 - D. The firm exists to maximize return
17. Which of the following is a legitimate reason why firm value maximization is preferred to profit maximization as the ideal goal for the firm?
- A. Value takes into account both profit and cashflow
 - B. Value or discounted cashflow is less ambiguous than profit
 - C. Value takes account of depreciation
 - D. Profit is too much concerned with the longer term.
18. Which of the following is **not** one of the qualities which make debt attractive to firms?
- A. The cost of debt is generally less than the cost of share capital and hence can lower the overall cost of capital for a firm.
 - B. Debt interest only gets paid when the company is making a profit.
 - C. It reduces the amount of corporate tax payable by firms by reducing the amount of taxable profit
 - D. The required return on debt is lower because, from the lender's point of view, debt is less risky than equity.
19. Which of the following is **not** a defining quality of a bond?
- A. Face Value
 - B. Coupon payment
 - C. Maturity
 - D. Dividend yield
20. What is the value of a 6%, five year bond with annual coupons and face value equal to £1,000, if the current yield to maturity is 6%?
- A. £1,089
 - B. £ 920
 - C. £ 1200
 - D. £ 1000

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21. Which of the following is **not** a money market instrument?
 - A. Bond
 - B. Certificate of Deposit
 - C. Commercial Paper
 - D. Treasury Bills
22. If corporation bankrupts, who is first for a corporation's assets?
 - A. President of corporation
 - B. Preferred stockholder
 - C. Loans from banks, bondholders, and taxes from government
 - D. Common stock holders
23. Which financial statement would you find revenue?
 - A. Income Statement
 - B. Balance Sheet
 - C. Changes in Owner's Equity
 - D. Statement of Cash Flow
24. When a bank grants a 30-year loan for a property and the property is the collateral, what kind of loan is this?
 - A. Mortgage
 - B. Commercial bank loan
 - C. A bond
 - D. Corporate stock
25. Which bond does not have an interest rate stated on it?
 - A. Coupon bond
 - B. Discount bond
 - C. Stock
 - D. Perpetuity (or consol) bond
26. In the area of investment banking, what is a syndicate?
 - A. Several investment banks work together to sell new stocks and bonds
 - B. The mafia work together to increase crime and profits
 - C. An investment bank works with government to create new corporations
 - D. The syndicate helps the government regulate the financial markets
27. Which bond allows the investor to change bond into stock?
 - A. Coupon bond
 - B. Discount bond
 - C. Convertible bond
 - D. Registered bond
28. Businesses maintain cash balances in order to take advantage of unanticipated business opportunities that may come long from time to time. This motive is
 - A. Precautionary
 - B. Transactionary
 - C. Speculative
 - D. Aggressive

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29. In finance, there is a positive trade-off between risk and
- A. Workers capital
 - B. Total cost
 - C. Return
 - D. Fixed assets
30. The minimum amount a bank keeps in a non-interest checking account equal to the specific percentage of an amount borrowed is called
- A. Minimum balance
 - B. Compensating balance
 - C. Cash balance
 - D. Bank overdraft
31. The risk that occurs if bond issuers don't pay coupon or principal or both is called
- A. Interest rate risk
 - B. Reinvestment rate risk
 - C. Default risk
 - D. Volatility risk
32. All the following are categories of inventory except
- A. Work in process
 - B. Raw materials
 - C. Finished goods
 - D. Stock overloads
33. The delay between ordering of goods and the delivery is called
- A. Stock out time
 - B. Inventory hold period
 - C. Lead time
 - D. Holding period
34. Asymmetric information occurs because
- A. One party to a financial transaction has more information than the other
 - B. Not all investors understand company accounts and balance sheets
 - C. Stock market prices on the internet lag real time prices by up to fifteen minutes
 - D. Not all shareholders are able to attend company annual general meetings
35. Banks have recently introduced the service in what is called RTGs. This stands for
- A. Reliable trade guarantee system
 - B. Real time guarantee system
 - C. Real time gross statement system
 - D. Real trade gross settlement system
36. Present value is defined as
- A. Inverse of future cashflows
 - B. Future cash flows discounted to the present at an appropriate discount rate
 - C. Discounting of compounded future cash flows
 - D. Present cashflows compounded in the future

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37. By applying rule 72, cedi will double in nine (9) years if the rate of interest is
- A. 18%
 - B. 9%
 - C. 8%
 - D. 6%
38. All the following are categories of inventory except
- A. Work in progress
 - B. Raw materials
 - C. Finished goods
 - D. Stock overloads
39. The delay between ordering of goods and the delivery is called
- A. Stock out time
 - B. Inventory hold period
 - C. Lead time
 - D. Holding period
40. The creditors of company are usually interested in observing the --
- A. Liquidity Ratio
 - B. Solvency Ratio
 - C. Profitability Ratio
 - D. Turnover Ratio
41. From the following, which is not considered as the financial asset?
- A. Common Stock
 - B. Patents
 - C. Bonds
 - D. Preferred Stock
42. A business raises a share capital of \$50,000 and a bank loan of \$20,000. If stockholders require 11.5% on the investment and the bank charges 8.45% on the loan. Calculate the WACC of the business if the tax rate is 17.5%
- A. 10%
 - B. 10.21%
 - C. 10.8%
 - D. 10.6%
43. The existence of leasing is primarily because
- A. Intermediate-term loans are difficult to obtain
 - B. This type of financing is unaffected by changes in tax laws
 - C. Companies, financial institutions and individuals derive different benefits from owning
 - D. Leasing is a renewable source of intermediate-term loan funds
44. Why should financial managers strive to maximize the current value per share of the existing stock?
- A. Doing so guarantees the company will in size at maximum possible rate
 - B. Doing so increases employee salaries
 - C. Because they have been hired to represent the interests of the current interests of the current shareholders
 - D. Because this will increase the current dividends per share

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45. If 20% is the interest rate on a monthly compounded security, calculate the periodic interest rate.
- A. 20%
 - B. 1.67%
 - C. 1.5%
 - D. 32%
46. Maximization of corporate wealth is the value maximization for.....
- A. Stakeholders
 - B. Employees
 - C. Debt holders
 - D. Stockholders
47. What is the future value of an annuity due of €15,000 for a period of 6 years at a rate of 9% per annum
- A. \$25,157
 - B. \$25,359
 - C. \$24,693
 - D. \$15,734
48. At 12% per annum 3 year discount factor is
- A. 0.826
 - B. 0.712
 - C. 0.909
 - D. 0.829
49. Which bond allows the investor to change bond into stock?
- A. Coupon bond
 - B. Discount bond
 - C. Convertible bond
 - D. Registered bond
50. Asymmetric information occurs because
- A. One party to a financial transaction has more information than the other
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 - D. Not all shareholders are able to attend company annual general meetings

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SECTION B

ANSWER QUESTION ONE AND ANY OTHER QUESTION

QUESTION ONE

- a. The data below is the financial statement of Benso Oil Palm plantation for the year 2017.

Benso Oil Palm Plantation Limited

Statement of comprehensive income for the year ended 31 December, 2017

(All amounts are expressed in thousands of Ghana cedis)

	2017	2016
Revenue	89,974	74,278
Cost of sales	(70,108)	(57,732)
Net gains from changes in fair value of biological assets	1,084	300
Gross profit	20,950	16,846
Administrative expenses	(8,121)	(7,051)
Other income	1,247	382
Operating profit	14,076	10,177
Finance income	377	529
Net profit before tax	14,453	10,706
Current tax expense	(1,882)	(2,616)
Total comprehensive income	<u>12,571</u>	<u>8,090</u>
Basic and diluted earnings per share (GH¢)	0.3612	0.2325
Income surplus account		
At 1 January	45,717	39,258
Net profit for the period	12,571	8,090
Dividend declared	(1,618)	(1,631)
At 31 December	<u>56,670</u>	<u>45,717</u>

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Benso Oil Palm Plantation Limited**Statement of financial position as at 31 December, 2017***(All amounts are expressed in thousands of Ghana cedis)*

	2017	2016
Non-current assets	51,434	46,617
Property, plant and equipment	47,473	43,740
Biological assets	3,961	2,877
Current assets	224,326	19,709
Inventories	7,282	4,985
Trade and other receivables	8,744	5,957
Amounts due from related companies	5,652	5,110
Current tax asset	97	-
Cash and bank balances	2,551	3,657
Total assets	<u>75,760</u>	<u>66,326</u>
Current liabilities	9,461	10,980
Trade and other payables	6,340	5,132
Amounts due to related companies	406	3,778
Deferred tax liability	1,986	1,366
Dividends payable	729	675
Current tax liability	-	29
Equity	66,299	55,346
Stated capital	2,000	2,000
Capital surplus account	7,629	7,629
Income surplus account	56,670	45,717
Total liabilities and equity	<u>75,760</u>	<u>66,326</u>

The financial statements do not contain untrue statements, misleading or omit material facts to the best of our knowledge.

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Statement of cashflows for the year ended 31 December, 2017*(All amounts are expressed in thousands of Ghana cedis)*

Cash flows from operating activities	2017	2016
Cash generated from operations	8,084	14,825
Interest received	377	529
Tax paid	(1,388)	(1,433)
Net cash/ generated from operating activities	7,073	13,921
Cash flows from investing activities		
Purchase of property, plant and equipment	(6,616)	(14,060)
Proceeds from sale of property, plant and equipment	16	49
Net cash used in investing activities	(6,616)	(14,011)
Cash flows from financing activities		
Dividends paid to the company shareholders	(1,564)	(1,490)
Net cash used in investing activities	(1,564)	(1,490)
Increase in cash and cash equivalents	(1,107)	(1,580)
Cash and cash equivalents at beginning of the year	3,658	5,238
Cash and cash equivalent at end of the period	2,551	3,658

Based on the data above calculate the following ratios

- i. Return on Investment
- ii. Net profit margin
- iii. Return on equity
- iv. Total asset turnover
- v. Inventory Turnover in days
- vi. Creditors days
- vii. Receivable Turnover
- viii. Current Ratio
- ix. Acid Test Ratio

(10MARKS)

- b. Mega obtained a loan of GHC 150,000 from Orchestra Bank. The bank charges 16% interest on the loan. The bank also charges 10% as compensating balance. Calculate the following

- i. The loan amount available to Mega
- ii. The periodic monthly interest rate
- iii. Effective monthly interest rate
- iv. The Annual percentage rate
- v. Briefly explain the effect of the compensating balance on the effective interest rate

(5MARKS)

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QUESTION 4

20marks

A. The material DX is issued uniformly throughout the year. The data below shows the annual requirement, ordering cost and the holding cost of this material

Annual cost: 2400 units

Ordering cost: \$10 per order

Holding cost: \$0.30 per unit.

Determine the following using the above data

- i. the economic order quantity (EOQ) of material DX **(2marks)**
- ii. the number of orders per year **(2marks)**
- iii. the total ordering cost for the year **(2marks)**
- iv. the total holding cost for the year. **(2marks)**

B. If a firm needs \$100 million to finance its new project and the flotation cost is expected to be 5.5%

- i. How much should the firm raise by selling price securities? **(5marks)**
- ii. How much is the flotation cost? **(1mark)**

C. An investor invests \$100 and receives the following returns from the portfolio

Year	Returns (%)
1	3
2	5
3	8
4	-1
5	10

- i. Calculate the arithmetic and geometric mean return of the portfolio **(3marks)**
- ii. Which of these two average methods is better in estimating average return of investment? Why? **(3marks)**

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QUESTION 5

- a. An organization wants to embark on a project out of which they expect some returns in a years' time. The organization therefore wishes to finance the project through debt. They have approached a bank which has agreed to advance a loan to finance the project. The bank wishes to use the cashflows from the project as collateral. The organization has therefore prepared a project proposal specifying the proposed cashflows from the project for a period of five years. The initial requirement for the project is GHC500, 000.

YEAR	0	1	2	3	4	5
Cashflow GHC (000)	(500)	100	120	250	350	550

The bank is convinced with the proposal and has agreed to give the said amount at an interest of 10% per annum subject to an expert advice. The bank has therefore hired you as a project financial consultant to advice the management of the bank on the financial viability or otherwise of the project. Your findings will help the bank take a decision in the loan advance. Your presentation must be centered on the following financial appraisal techniques stating your reasons in each case

- i. Simple payback method (2MARKS)
- ii. Net present Valuc (NPV) (5MARKS)
- iii. Profitability index (PI) (1MARK)
- iv. Internal rate of return (IRR) (2MARKS)

- b. Using the following information below to answer the following questions

Long term debt to equity	0.5 to 1
Total asset turnover	2.5 times
Average collection period	18 days
Inventory turnover	9 times
Gross profit margin	10%
Acid test ratio	1 to 1

Assume a 360 day year and all sales are on credit

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Balance sheet

Cash		Notes and payables	GHC 100,000
Account receivables		Long term debt	
Inventory		Common stock	GHC100,000
		Retained earnings	GHC100,000
Plant and equipment			
Total asset		Total liabilities and shareholders' equity	

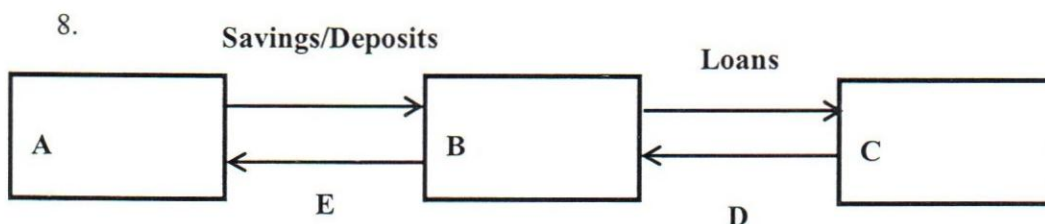
- Complete the balance sheet by filling the spaces
- If the firms earnings after tax and interest payments was GHC50,000, Calculate the net profit margin of the firm

SECTION C

Answer all questions in this section

20marks

- Explain why projects with NPV of zero can be considered as financially viable (1mark)
- State four benefits of project financial appraisal (2marks)
- Briefly explain agency theory (1mark)
 - State three important features that contribute to the existence of the agency problem within public limited companies. (3 marks)
- Briefly distinguish the difference between *financing decision* and *investment decision* of a company (2marks)
- Briefly explain the term *preemptive rights* and state two purposes for the existence of preemptive right for a common stockholder (2 marks)
- State and explain three risks that affect bondholders.
- State three limitations of the payback period method as a capital budget decision technique (1.5marks)



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Use the process of financial intermediation to identify the parts labeled A, B, C and D

(2marks)

9. What is economic order quantity? **(1mark)**

10. State three factors which affect the choice of source of business finance. **(1.5marks)**

SECTION D

Answer only ONE question from this section

QUESTION ONE (20marks)

- a. With the aid of a diagram explain the difference between direct financing and indirect financing. **(12marks)**
- b. What is a financial intermediation? **(2marks)**
- c. With the aid of a diagram explain how the process of financial intermediation leads to economic development **(6marks)**

QUESTION 2

(20marks)

- a. Explain working capital management **(5marks)**
- b. What is the difference between gross *working capital* and *net working capital*? **(5marks)**
- c. Explain how excessive levels of current assets affect the profitability of a business entity **(10marks)**

QUESTION 3 (20marks)

- a. State three internal sources of business finance **(6marks)**
- b. Give two advantages and one disadvantage each of the above named sources **(9marks)**
- c. Explain briefly how the risk profile of a business affects its choice of business finance. **(5marks)**

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QUESTION 4 (20marks)

- a. Letters of Credit and Bank guarantee are two banking products which banks offer their customers as a sign of credit worthiness. With the aid of illustration, explain the mechanism of Letter of Credit (LC) and bank guarantee and explain how different and similar they are in respect of their operations **(16MARKS)**.
- b. State four differences between pledge and hypothecation **(4marks)**