



CHRISTIAN SERVICE UNIVERSITY COLLEGE

KUMASI, GHANA

SCHOOL OF BUSINESS

DEPARTMENT OF ACCOUNTING AND FINANCE

END OF FIRST SEMESTER EXAMINATIONS – 2020/2021 ACADEMIC YEAR

BACHELOR OF BUSINESS ADMINISTRATION

LEVEL 200

CSBG 268: CORPORATE FINANCE

MAY 2021

30 MARKS

Time Allowed: 1 HOUR

GENERAL INSTRUCTION TO CANDIDATES:

- i. *This paper comprises 60 Multiple Choice Questions. **ANSWER ALL QUESTIONS** by **CIRCLING** the most appropriate option in **INK** on the Question Paper*
- ii. *Clearly indicate your **index number** on every page of the question paper.*
- iii. *You are required to return your question paper upon completion.*

You are NOT to start work or turn to the next page until you are told to do so. Do not take away any section of this paper

Attempt all questions

1. Net working capital is the difference between
 - a. Current assets and current liabilities
 - b. Current liabilities and current assets
 - c. Trade receivables and short investment
 - d. Trade payables and overdrafts
2. Which of the following is an example of current assets?
 - a. Trade receivable
 - b. Trade payable
 - c. Overdraft
 - d. Short term loan
3. Which of the following is an example of current liabilities?
 - a. Trade payable
 - b. Trade receivable
 - c. Short term investment
 - d. Cash
4. Without the oil of working capital, the engine of non-current assets will not function
 - a. True
 - b. False
 - c. None of the above
 - d. Yet to be determine
5. The following are reasons for holding cash except
 - a. Profitability motive
 - b. Transaction motive
 - c. Precautionary motive
 - d. Speculative motive
6. Sensible working capital policies should reflect corporate decisions
 - a. True
 - b. False
 - c. None of the above
 - d. Yet to be determined
7. Working capital policies will also need to reflect the credit policies of a company's close competitors
 - a. True
 - b. False
 - c. None of the above
 - d. Yet to be determined
8. An aggressive policy with regard to the level of investment in working capital means;
 - a. that a company chooses to operate with lower level of inventory, trade receivable and cash for a given level of activity or sales
 - b. maintaining a larger cash balance, perhaps even investing in short term securities, offering more generous credit terms to customers and holding higher level of inventory
 - c. middle path between aggressive and conservative policy
 - d. none of the above
9. A conservative policy with regard to the level of investment in working capital means;
 - a. maintaining a larger cash balance, perhaps even investing in short term securities, offering more generous credit terms to customers and holding higher level of inventory
 - b. that a company chooses to operate with lower level of inventor, trade receivable and cash for a given level of activity or sales
 - c. middle path between aggressive and conservative policy
 - d. none of the above
10. Short term sources of finance include the following except
 - a. bond
 - b. overdraft
 - c. short term bank loans
 - d. trade credit
11. The reason for reserve requirement is to
 - a. ensure that banks can meet demands for withdrawal
 - b. facilitate the control of money supply
 - c. reassure the public regarding the liquidity of the banking system

12. Investing in Treasury bill is
 - a. borrowing at a risk free rate
 - b. lending to the government
 - c. buying votes in the government
 - d. borrowing from the government
13. Which of the following best describes a financial security?
 - a. a collection of assets with different risk / expected return characteristics
 - b. financial claim on the cash flows of the issuing organization usually evidenced by a piece of paper
 - c. residual claim on the assets of a firm
 - d. contingent claim that pays off only in certain situations
14. A risk averse investor will
 - a. expects only to benefit from investing
 - b. demand compensation in the form of a higher returns
 - c. find very few companions in the market place
 - d. acquire only government securities
15. A supplier of funds is one who/whose
 - a. income and expenditure for a period are equal
 - b. income for the period exceeds consumption expenditure
 - c. buy on credit
 - d. consumption expenditure exceeds income for the period
16. Liquidity of an asset measures
 - a. The private placement
 - b. How easily it can be converted into cash without a significant loss of value
 - c. Its ability to generate revenue
 - d. How easily it can be exchanged without loss of value
17. The sale of ordinary shares to the public for the first time is a
 - a. secondary offering
 - b. initial public offering
 - c. primary offering
 - d. recapitalization
18. A market where existing securities are traded is known as a(n)..... market
 - a. Primary
 - b. Secondary
 - c. Capital
 - d. Financial
19. Individuals in the household sectors are the largest supplier of funds in Ghana. They do this by
 - a. directly purchasing stocks and bonds
 - b. indirectly by depositing surplus funds in the bank
 - c. directly by buying shares
 - d. all the above
20. Which of these is a depository institution?
 - a. Insurance company
 - b. Credit union
 - c. Pension trusts
 - d. Finance company
21. How much is a cedi worth if you can expect to receive it a year from now from a bank with no risk of default
 - a. less than GH¢1.00
 - b. GH¢1.00
 - c. more than GH¢1.00
 - d. not enough information given to tell
22. What is the future value of GH¢30,000.00 monthly annuity received at the end of the next six years, if the annual compounding rate is 10%?
 - a. GH¢231,468.00
 - b. GH¢165,986.00
 - c. GH¢230,538.00
 - d. GH¢332,668.00
23. What is the present value of GH¢10,000 to be received in 10 years in 10 years, if the interest rate is 15%?
 - a. GH¢4,556.00
 - b. GH¢2,472.00
 - c. GH¢3,572.00
 - d. GH¢3,972.00
24. Bond prices move With interest

- a. inversely
 - b. directly
 - c. together
 - d. parallel
25. the value of financial asset is the present value of cash flow it generates over its life.
- a. True
 - b. False
26. The insurer's ability to redeem a bond before maturity is known as
- a. callability
 - b. convertibility
 - c. arbitrage
 - d. negotiability
27. a bond that is not covered by specific security is known as
- a. debenture
 - b. serial bond
 - c. sinking fund bond
 - d. municipal bond
28. How do Treasury bills pay interest on their investors?
- a. possible price appreciation above their discounted price
 - b. coupon interest
 - c. cash dividend
 - d. treasury bills pay no interest
29. Debt secured by financial assets is known as
- a. collateral trust certificate
 - b. municipal bond
 - c. sinking fund bond
 - d. equipment trust certificate
30. The annual payments a bondholder receives are determined by multiplying the bond's face value by its
- a. coupon rate
 - b. terminal wealth factor
 - c. nomograph
 - d. bond table
31. Returns on financial assets refers to
- a. investment in non-current assets and business operation
 - b. the financial rewards gained as a result of making an investment
 - c. dividend payment and capital gain
 - d. possibility that actual return is less than expected return
32. What is the relationship between risk and returns?
- a. the lower the risk, the higher the returns
 - b. the higher the risk, the higher the returns
 - c. the lower the return, the higher the risk
 - d. no relationship
33. Risk refers to the possibility that
- a. the actual return is higher than the expected return
 - b. the actual return is less than the expected return
 - c. the actual return is equal to expected return
 - d. none of the above
34. Time value of money means
- a. the value of money is the same over time
 - b. the value of money changes over time
 - c. the value of money does not change over time
 - d. both A and C
35. The following are three (3) main factors you prefer money today except
- a. time
 - b. cost
 - c. inflation
 - d. risk
36. The process of going forward, from present value to future value is called
- a. discounting
 - b. compounding
 - c. future value
 - d. interest rate
37. The reverse of compounding is
- a. future value
 - b. discounting
 - c. interest rate
 - d. exchange rate
38. Securities that promise to make payment forever is called

- a. annuities
 - b. perpetuities
 - c. present value
 - d. future values
39. Which of the following is another name for perpetuity?
- a. present value
 - b. console
 - c. future value
 - d. annuities
40. A regular payment of a fixed amount over a finite period is known as
- a. perpetuity
 - b. annuities
 - c. present value
 - d. future value
41. An ordinary annuity requires
- a. payment at the beginning of each period of time
 - b. payment at the end of each period of time
 - c. payment at any point in time
 - d. none of the above
42. An annuity due requires
- a. payment at the beginning of each period of time
 - b. payment at the end of each period of time
 - c. payment at any point in time
 - d. none of the above
43. What is the primary goal of a firm?
- a. maximize the value of shareholders wealth
 - b. maximize the profit
 - c. minimize the cost of production
 - d. both B and C
44. Calculate the future value, if GH¢20.00 deposited for 5 years at an annual interest rate of 6%
- a. GH¢26.76
 - b. GH¢30.00
 - c. GH¢38.00
 - d. GH¢21.84
45. What is the decision rule, when net present value (NPV) is greater than zero?
- a. project is viable
 - b. project is not viable
 - c. project earns the same as discount rate
 - d. none of the above
46. What is the decision rule, when net present value (NPV) is less than zero
- a. project is not viable
 - b. project is viable
 - c. project earns the same as discount rate
 - d. none of the above
47. What is the decision rule, when net present value is equal to zero
- a. project earns the same as discount rate
 - b. project is viable
 - c. project is not viable
 - d. none of the above
48. A project with an initial cashflow (I_0) of GH¢12,000, if the total present value ($\sum PV$) is GH¢13,631, calculate the project NPV
- a. GH¢1631.00
 - b. GH¢3161.00
 - c. GH¢1900.00
 - d. GH¢25,000.00
49. If the net present value (NPV) of a project is GH¢30,000.00 and the initial cashflow is (I_0) is GH¢5000.00. calculate the total present value
- a. GH¢35,000.00
 - b. GH¢5000.00
 - c. GH¢30,000.00
 - d. GH¢25,000.00
50. If the cash inflow and cash outflow of a project are GH¢8,000.00 and GH¢7000.00 respectively. Calculate the net cashflow of the project\
- a. GH¢1,000.00
 - b. GH¢8,000.00
 - c. GH¢-1,000.00
 - d. GH¢15,000.00
- A business project is being considered which has the following information. Calculate the net cash flow from year 1 to year 4
- | Year | Cash inflow | Cash outflow |
|------|-------------|--------------|
| | | |

1	8,000	8,500
2	12,000	3,000
3	10,000	1,500
4	6,500	1,500

Use the information to answer, question 51
– 54

51. Net cashflow for the year 1 is

- a. GH¢500.00
- b. GH¢-500.00
- c. GH¢1,000.00
- d. GH¢8,000.00

52. Net cashflow for year 2 is

- a. GH¢3,000.00
- b. GH¢9000.00
- c. GH¢15,000.00
- d. GH¢12,000.00

53. Net cashflow for year 3 is

- a. GH¢1,500.00
- b. GH¢8,500.00
- c. GH¢10,000.00
- d. GH¢105,000.00

54. Net cashflow for year 4 is

- a. GH¢8,000.00
- b. GH¢5,000.00
- c. GH¢6,500.00
- d. GH¢1,500.00

55. Bonds that promise a fixed stream of cash payments over a finite time period is called

- a. vanilla ice
- b. plain vanilla
- c. green vanilla

d. both A and C

56. Principal amount of the bond is called

- a. Maturity date
- b. par value
- c. coupon
- d. bond value

57. A fixed amount of interest a bond promises to pay investors is

- a. par value
- b. coupon
- c. indenture
- d. bond value

58. The legal contract between the borrower who issues the bond and the investor who buys them is known as

- a. coupon
- b. indenture
- c. par value
- d. coupon rate

59. Bonds cashflows are contractually fixed and are called

- a. variable income securities
- b. fixed income securities
- c. no income securities
- d. both A and C

60. For corporate bonds the par value is typically in

- a. \$50.00
- b. \$1,000.00
- c. \$25.00
- d. \$500.00

Examiner: Nkukporu Etse