



**CHRISTIAN SERVICE UNIVERSITY COLLEGE  
KUMASI**

**CSUC SCHOOL OF BUSINESS**

**DEPARTMENT OF ACCOUNTING & FINANCE**

**BACHELOR OF BUSINESS ADMINISTRATION**

**End of Second Semester Examination, 2019/2020 Academic Year**

**Level 200**

**CSBG 268: BANKING AND CORPORATE FINANCE**

**JUNE, 2020**

**[70 marks]**

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**INSTRUCTIONS TO CANDIDATES:**

- **Answer TWO Questions (for 70marks )**
  - **Write your answer on the answer sheets provided**
  - **Your answer for EACH QUESTION should be FOUR (4) pages minimum.**
  - ***Please present your answer in ESSAY form as much as possible unless otherwise stated.***
  - **Write your index number clearly at the top of every page of the answer sheets used.**
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**Note: Marks will be awarded for:**

- Introduction
- Content
- Conclusion
- Evidence of Further Reading
- Originality and Independence (Cheating would be penalized and integrity rewarded)
- Correct grammar, clarity of expression and logical presentation of facts.
- Answers to questions must be well referenced.

**GENERAL INSTRUCTIONS TO CANDIDATES:**

- **ANSWER ALL QUESTION FROM PART A AND ANY OTHER ONE QUESTION FROM PART B.**

**PART A: (50MARKS)**

**QUESTION 1A.**

a) It is estimated that an investment in a new process will cause the following cash flow (in GH¢)

YEAR	CASH INFLOW	CASH OUTFLOW
0		30000
1		5000
2	7500	
3	10000	
4	10000	
5	10000	
6	10000	

Suppose that we find that the beta of the project is 1.58 and that the expected Treasury bill rate is 15% while the historical premium of equities over Treasury bill is 7%.what is the required rate of return the firm wishes to earn on this project per annum.

Calculate;

- The Net Present Value of the project (25marks)
- As the corporate finance manager of your company, comment on the course of action to be taken (5marks)

**B)**

a) On January 1, 2009, CSUC United had outstanding a bond with a face value of \$1000. At the end of each year this bond pays investors \$91.25 in interest. The bond matures at the end of 2019, eleven years from now. Assume that CSUC United has in issue 500, 000 \$1 ordinary shares whose current ex-dividend market price is \$1.50 per share. CSUC United has just paid dividend of 27p per share and the dividends are expected to continue at this level for some time. If CSUC United has no debt capital, what is the weighted average cost of capital? NOTE: Use the weighted average cost of capital as the discount rate of the bond.

Calculate:

- The present value of the bond; (4marks)
- The present value of principal; (4marks)
- The current market price of the bond; (4marks)
- Does this bond trades at premium or discount? Explain (4marks)
- The coupon yield. (4marks)

**SECTION B: ANSWER ANY ONE QUESTION FROM THIS SECTION.**

**QUESTION 2**

a) The possible returns and associated probabilities of two shares, A and B for ASEDA Company Limited.

<b>SHARE A</b>		<b>SHARE B</b>	
Probability	Return (%)	Probability	Return (%)
0.05	5	0.05	6
0.25	7.5	0.25	9
0.40	11	0.40	14
0.25	12.5	0.25	16
X	15	0.05	19

Calculate;

- i. The value of X in Share A **(1marks)**
- ii. The expected returns of Share A and Share B **(2marks)**
- iii. Which investment would you prefer based on outcome in (ii) **(1marks)**
- iv. The volatility of Share A and Share B **(5marks)**
- v. As the corporate finance office, advice management on the type of share to purchase **(1marks)**

b).

Does profit maximization lead to the highest possible share price? Explain based on the following reasons; Timing, Cash flows and Risk. (10 marks).

**QUESTION 3A.**

- i. Plain vanilla bonds **(1marks)**
  - ii. A CONSOL bond **(1marks)**
- b) Calculate the following values assuming a discount rate of 12 percent.
- i. GH¢500 compounded for five years; **(1marks)**
  - ii. The present value of GH¢500 to be received in five years' time **(1marks)**
- c) Mr and Mrs Covid- 19 bought a vacation property, paying GHc 3000 as a down payment and making further payments of GHc 1000 every six months for twelve years. If interest is 7% compounded semi- annually, what was the cash value of the property? (4marks)
- d) How many quarterly payments of GHc 600 are required to repay a loan of GHc 5400 at 6% compounded quarterly (4marks)
- e) What semi- annual payment at the end of each six – month period is required to pay off a loan of GHc8000 in ten years if interest is 10% compounded semi-annually? (4marks)
- f) Assume you are given a choice of a term deposit paying 7.2% compounded monthly or an investment certificate paying 7.25% compounded semi- annually. Assume accumulated value of GHc 1 after one year. Which rate offers the higher rate of return (4marks).

**QUESTION 4.**

In this era of Global pandemic of COVID – 19, companies in both macro and micro levels are saddled with myriad of challenges. This has distorted their Board room decision, operational activities. Though not exhaustive, the devastating effects of Covid- 19 has led to massive dwindling of wealth of nations, distortion of trading activities, cash flow issues and agency issues for which corporate institutions cannot be exempted. A businessman interviewed revealed that “sales has reduced drastically”. This CEO, is in a dilemma to lay off or maintain some key employees for the sustainability of the business. Following this mini case:  
(Examiners own mini case).

- a) Explain the use of compensation contract (“golden handcuffs”) to control agency costs (6marks).
- b) Explain any four strategies that could be followed by the company seeking to deal with the problem of overtrading (8marks)
- c) Explain the possible reasons why a company might experience cash flow problems and suggest ways in which such problems may be alleviated (6marks)

***Examiner: Etse Nkukporu***

Index Number ..... Signature .....