

**CENTRAL UNIVERSITY
END OF FIRST SEMESTER EXAMINATIONS 2021/2022**



2021/2022

CENTRAL BUSINESS SCHOOL

DEPARTMENT OF BANKING AND FINANCE

**CBBF 202: BUSINESS FINANCE (3 CREDITS)
EXAMINATIONS**

TIME ALLOWED: 2 HOURS

**INSTRUCTIONS
ANSWER ALL QUESTIONS**

**STUDENT ID NO:.....
LECTURER: DR. ANDREWS KWABLAH**

Part A

Answer all questions

All questions carry the same marks

1. Investors lend money to investors by
 - a. buying debt securities in the debt market.
 - b. selling equity securities.
 - c. liquidating assets.
 - d. selling debt securities.

2. What is the maturity date of a security?
 - a. The date when the interest must be paid.
 - b. The date the security was issued
 - c. The date when a debt must be repaid.
 - d. The date the security was purchased.

3. Which of the following is a source of cash?
 - a. Decrease in an asset account
 - b. Decrease in a liability account
 - c. Decrease in a stockholders' equity account
 - d. Increase in the asset account

4. A loan repayment can be an example of
 - a. a perpetuity
 - b. an annuity
 - c. cash flow
 - d. dividend payments

5. Consider the valuation of a share of common stock that paid a Gh¢2 dividend at the end of last year and is expected to pay a cash dividend every year from now to infinity. Each year the dividends are expected to grow at a rate of 10 percent. Based on an assessment of the riskiness of the common stock, the investor's required rate of return is 15 percent. What is the value of this common stock?
 - a. 13.33
 - b. 40
 - c. 44
 - d. 22

6. Conflicts that arise out of the separation of management and ownership of the firm is described as the
 - a. agency problem.
 - b. profitability problem.
 - c. liability problem.
 - d. management decision problem.

7. Trade in already outstanding shares between investors occurs in the
- A. Secondary market
 - B. Primary market
 - C. Bank of Ghana
 - D. Forex market
8. If I hold a zero-coupon bond, it means:
- A. There is no maturity date
 - B. I will receive interest payments only
 - C. It will mature when interest rates reach zero percent in the country
 - D. The issuer will pay only the face value at maturity
9. A bond with a face value of Gh¢5,000 is selling at Gh¢5,100. The bond is selling at a
- A. Discount
 - B. Premium
 - C. Junk
 - D. Investment
10. The government of Ghana issued a £2.5billion bond in the UK. The bond can be described as
- A. An Eurobond
 - B. A domestic bond
 - C. A junk bond
 - D. An international bond
11. Common stockholders have:
- A. No residual claim on assets
 - B. Voting Rights
 - C. The right to borrow money from the company
 - D. No access to the annual report of the company.
12. Newly issued shares are sold to:
- A. Pay dividends to the shareholders
 - B. Satisfy the Stock Exchange regulations
 - C. Raise money for the issuer
 - D. To demonstrate the size of the company.
13. The value of common stock can be derived from:
- A. Discounting estimates of expected dividends
 - B. Discounting past dividends
 - C. Data from the balance sheet
 - D. The cash flow statement

14. Bond ratings affects the rate of return that lenders require of the firm. A low bond rating implies:
- A. A lower the rate of return
 - B. A higher the rate of return
 - C. A flat rate of return
 - D. A decreasing rate of return.
15. A loan repayment can be an example of
- A. A perpetuity
 - B. An annuity
 - C. A growing perpetuity
 - D. Cash flow
16. Which of these is not a potential source of finance for small firms in Ghana?
- A. Venture capitalists
 - B. African Development Bank
 - C. Family and Friends
 - D. Trade credit (creditors)
17. Which capital budgeting method is most preferred by small businesses for the investment decision making?
- A. Annuity method
 - B. Internal rate of return method
 - C. Discounted cash flow method
 - D. Payback period method
18. Financial markets are often described by the maturities of the securities traded in them. What are the main financial markets in operation? Choose the two that apply:
- A. Money markets
 - B. Capital markets
 - C. Treasury market
 - D. Short term market
19. The directors of a company are elected by:
- A. Stockholders/shareholders
 - B. The managers of the company
 - C. The Minister of Finance
 - D. The workers of the company.

20. Sales and the costs to generate those sales, other sources of revenue, and all operating, administrative, and other business expenses are detailed in the

- A. Statement of Cash Flow
- B. Balance Sheet
- C. Income Statement
- D. Notes

PART B

Answer all questions

All questions carry equal marks (Total marks: 60)

1. Mr Musa is considering an investment of \$250,000 in new equipment to boost his production of roasted cashews. His incremental cash flow, discounted at his cost of capital for the next 10 years is as shown.
 - a. What is his payback period? (8 marks)
 - b. What is his profitability index? (7 marks)

Year	Cash Flow	Discounted Cash Flow
0	-\$250,000	-\$250,000
1	\$50,000	\$45,454
2	\$50,000	\$41,322
3	\$50,000	\$37,565
4	\$50,000	\$34,150
5	\$50,000	\$31,046
6	\$50,000	\$28,223
7	\$50,000	\$25,658
8	\$50,000	\$23,325
9	\$50,000	\$21,205
10	\$50,000	\$19,277

2. Given the following summary data, calculate the Annual Cash flow of the operations. (15 marks)

Summary Data		
Equipment cost (today)	-400,000	
Project life	10	
Salvage value	50000	
Depreciation expense	80,000	per year
Cash operating expenses	15,000	per year
Revenues (from Year 1)	600,000	per year
Cost of goods sold	400,000	per year
Net working capital investment (in Year 0)	98,000	
Required rate of return	20%	
Tax rate	35%	

Revenue - Int

Question 3.

- a. Miotso Ice Cream Emporium is privately owned now and is considering selling a portion of its shares to the public, and wants to value them. The company's Finance Director estimates that the company earnings per share for the coming year will be ₺2.83. The average of current P/E ratios for three similar firms in the industry is given as 22.61. What is your estimate of the price of Miotso Ice Cream Emporium shares based on the P/E ratios of the comparable firms? (8 marks)
- b. Consider the valuation of a share of common stock that paid a ₺20 dividend at the end of last year and is expected to pay a cash dividend every year from now to infinity. Each year, the dividends are expected to grow at a rate of 10%. Based on an assessment of the riskiness of the common stock, the investor's required rate of return is 15%. What is the value of this common stock? (7 marks)

Question 4

- a. List and explain three of the basic features of a bond. (5 marks each)
- i. Bond Indenture
 - ii. Par or Face Value
 - iii. Coupon Interest Rate
 - iv. Call Provision and Convertible Features
- b. Consider a Gh₺1,000 par value bond issued by Central University with a maturity date of 2040 year-end and a stated coupon rate of 8.5%. On January 1, 2021, the bond had 20 years left to maturity. If the market's required yield to maturity on a comparable risk bond is 7.5%, what is the value of the bond? (5 marks)

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