



# CENTRAL UNIVERSITY COLLEGE

RE-SIT AND SUPPLEMENTARY EXAMINATION: 2021 / 2022  
ACADEMIC YEAR

CENTRAL BUSINESS SCHOOL

DEPARTMENT OF BANKING AND FINANCE

CBBF 304

ACCOUNTING FOR BANKERS

MARCH, 2022

2.5 Hours

STUDENT ID No.....

1. There are five questions in all. Answer any four questions.
2. Show all workings.
3. After the examination, *submit your question paper* alongside your answer booklet. Do not take the question paper out of the examination hall.

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BY THE INVIGILATOR

Examiner: M. E. Asamoah

### Question 1

a). The statement of cash flow is simply a financial statement which reports on the cash receipts and disbursements of an entity during an accounting period. Explain each of the following in relation to cash flow statements, give examples in each case.

- i. Cash flow from operating activities [5 points]
  - ii. Cash flow from investing activities [5 points]
  - iii. Cash flow from financing activities [5 points]
- b. Explain three (3) advantages and two (2) limitations of a cash flow statement. [5 points]
- c. Outline the various steps in the preparation of cash flow statements. [5 points]

[Total = 25 points]

### Question 2

a) A company has to choose between two mutually exclusive projects A and B, each of which has a life of six years. Each project has an initial cost of GH¢ 2000. The following are the year-end cash flows:

Year	1	2	3	4	5	6
Cash flows for Project A	200	200	200	1300	1300	1400
Cash flows for Project B	1000	1000	1000	500	500	500

Assuming the cost of capital is 15%, determine the best Project to undertake on the basis of

- i. The Payback Period (5 marks)
- ii. The Net Present Value (8 marks)
- iii. Discuss three reasons why the net present value technique of project evaluation is generally preferred to the payback period technique (3 marks)



b) One of the private clients of your company has asked for your advice concerning a GH¢ 10000 which he wishes to invest for five years. The two alternatives are to use a bank account where 36% per annum rate is compounded monthly or a Savings Fund where 40% per annum is compounded annually.

**Required:**

- a. Calculate the size of each fund at the end of the five years (5 marks)
- b. Calculate the effective annual interest rate on the Bank Account (2 marks)
- c. Advise your client on the basis of your calculations (2 marks)

[Total Marks = 25]

**Question 3**

- a). What is a self-imposed budget? (2 Marks)
- ii). Discuss four major benefits to be gained from a self-imposed budget. (4 Marks)

(b). You have been developing and selling a general application software packages for the past two years. You would like to take a loan from Makosah Bank to help expand your operations. As part of the requirements for loan application, you have to attach a cash budget for the three months ahead. The cash budget would enable the credit officer at the bank to assess your ability to generate cash flows and thus your credit worthiness. During your tertiary education at the prestigious Central University you read Accounting For Bankers. One of the skills you obtained from that course is financial planning. Therefore, you have resolved to prepare the cash budget on your own.

In preparation towards the drafting of the cash budget, you wrote down the following relevant facts and forecasts:

1. The cash balance on 31st December 2020 will be GH¢40,000.
2. Actual sales of application software packages for November and expected sales for December, January, February and March are as shown in the following table:

	November 2020	December 2020	January 2021	February 2021	March 2021
Cash sales	GH¢65,000	GH¢70,000	GH¢83,000	GH¢120,000	GH¢150,000

Credit Sales	GH¢400,000	GH¢525,000	GH¢600,000	GH¢650,000	GH¢700,000
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Credit sales are collected in the following ratio: 60% collected in the month following sale and 38% collected in the second month following sale. From experience, 2% usually tend to be uncollectible.

3. Purchases of materials and supplies will amount to GH¢280,000 in January, GH¢300,000 in February and GH¢350,000 in March. Purchases of materials and supplies amounted to GH¢250,000 in November and will amount to GH¢260,000 in December. Thirty percent of the value of materials and supplies are paid during the month of purchase and the remainder paid in the following month.
4. Selling and administrative expenses will be GH¢130,000 in January, GH¢150,000 in February and GH¢140,000 in March. Of these amounts, 20% represent depreciation (a noncash overhead). Selling and administrative expenses are paid in the month in which they are incurred.
5. A new laptop computer will be purchased by cash during February. The estimated cost is GH¢1,800.
6. You would like to maintain a minimum cash balance of GH¢20,000.

**Required:**

Prepare the following for January, February and March 2021 and total for the Quarter:

- i) A schedule of expected cash collections from credit sales. [6 points]
- ii) A schedule of expected cash disbursements to suppliers for materials and supplies. [3 points]
- iii) A cash budget and where necessary indicate in the financing section any borrowing that will be needed during the month. [10 points]

[Total = 25 points]

**Question 4**

The A&C Branch of Honey Suckles Catering Ltd prepares and sells a number of dishes to companies within its vicinity. Below are typical costs the company incurs:

- i. Cost of white rice used for preparing saffron rice with vegetable stew
- ii. Wages to cooks
- iii. Salary to the branch manageress, Untie Kuukua
- iv. Rent paid to A&C in respect of kitchen space
- v. Cost of water used in washing plates



vi. Depreciation of cookers and microwave ovens

**Required:**

i) For each of the costs listed above, state whether the cost is a direct cost or indirect cost. [6 marks]

ii) For each of the costs listed above, state whether the cost is variable expense or fixed expense. [6 marks]

b). In the tax planning process, an effort should be made to distinguish between tax evasion and tax avoidance". Discuss the distinction between tax evasion and tax avoidance in the tax planning process [7 points]

c.) According Adams Smith there are four main attributes of a good tax system. Explain each of them. [6 marks]

[Total = 25 points]

**Question 5**

a). Makosah and Sons produces authentic African herbs for men. Cost of producing and selling one litre of this product at the current activity level of 15,000 litres per month are as under.

Direct materials	GHS 2.50
Direct labour	GHS 2.60
Variable manufacturing overhead	GHS 1.75
Fixed manufacturing overhead	GHS 3.50
Variable selling and administrative expense	GHS 1.85
Fixed selling and administrative expense	GHS 1.10

The usual price for a litre of the product is GHS 15. Makosah and Sons has the capacity to produce 25,000 litres per month, but currently produces 15,000 litres every month. An order has been received from Sir Josh for 800 litres of the beverage at GHS 9 per litre.

**Required:**

Should Makosah and Sons accept the order and deliver the 800 litres of the beverage at GHS9? per litre? [12 points]

B). Jeffy Body-Building Agency organises seminars and training sessions for professional body-builders. The agency plans to organise a one-day seminar for students of Central who are considering going into body-building. Holding of the seminar requires a venue and two resource persons. The agency plans to hire a lecture room from Central to host the event. Central usually charges a flat rate of \$500 for rental of a lecture room per day. The agency has signed a contract with the two resources persons, and agreed to pay \$1,000 to each person regardless of the number of students who attend the seminar. In addition to these expenses, the agency will provide drinks and food to participants. The agency estimates that feeding cost would be \$10 per participant. Entrance fee for participants is set at \$18 per participant; no discount will be given.

*Required:*

- i). which of the costs associated with the seminar are variable? Which are fixed? [4 points]
- ii). Compute the contribution margin ratio for the seminar. [4 points]
- iii). For Jeffy Agency to break-even, how many students should the agency get on the seminar attendance register? [5 points]

[Total = 25 points]