CENTRAL UNIVERSITY

END OF FIRST SEMESTER EXAMINATIONS 2021/2022

CENTRAL BUSINESS SCHOOL

DEPARTMENT OF BANKING AND FINANCE

CBBF 304: ACCOUNTING FOR BANKERS
(3 CREDITS)

TIME ALLOWED: 3 HOURS

STUDENT ID NO: ……………………………………………………

INSTRUCTIONS: FOLLOW INSTRUCTIONS ON THE QUESTION PAPER

ANSWER FOUR (4) QUESTIONS IN ALL.
ATTEMPT QUESTION ONE (1) AND ANY OTHER TWO (2) QUESTIONS:

EXAMINER: DANIEL OFORI-SASU

SECTION A: COMPULSORY [60 marks]

QUESTION ONE

a. Given the table below, suppose the firm uses the NPV decision rule. At a required return of 11 percent, should the firm accept this project? What about the Profitability Index and the Payback Period

Time	Net Cash Flows (GHC)
0	(130,000)
1	68,000
2	71,000
3	54,000

b. The table below shows the cash flows of A&C project over 5-year period with required rate of return of 12%.

Time	COSTS (GHc)	BENEFITS (GH c)
1	5,700	5,800
2	6,000	5,900
3	6,100	6,600
4	6,200	6,650
5	6,500	7,000

Calculate:

(i) the Benefit-Cost Ratio (BCR)

(ii) the Cost-Benefit Ratio (CBR)

(iii) the Net Present Value (NPV)

(iv) Given the NPV and BCR values, would you accept the project

[15 Marks]

c. **Financial Analysis**

Last year Cole Furnaces had $5 million in operating income (EBIT). The company had a net depreciation expense of $1 million and an interest expense of $1 million; its corporate tax rate was 40%. The company has $14 million in operating current assets and $4 million in operating current liabilities; it has $15 million in net plant and equipment. It estimates that it has an after-tax cost of capital of 10%. Assume that

Cole's only noncash item was depreciation.

i. What was the company's net income for the year?
ii. What was the company's net cash flow?
iii. What was the company's net operating profit after taxes (NOPAT)?
iv. Calculate net operating working capital and total net operating capital for the current year.
v. If total net operating capital in the previous year was $24 million, what was the company's free cash flow (FCF) for the year?

[15 Marks]

d. **Financial Reporting**

Attached is an extract of the financial statement of DCI Financial Company Limited. You have been contracted as a financial consultant to assist the company in evaluating and examining the strengths and weaknesses of the company through ratio analysis. Using the following ratios, assess the performance of the company over the 2-year period (2016-2017)

i. Return on Asset
ii. Current Ratio
iii. Loans to deposits ratio
iv. Liquid assets to total assets
v. Leverage ratio

[15 Marks]

SECTION B: CHOOSE ONLY TWO QUESTIONS FROM THIS SECTION [40 marks]

QUESTION TWO

The following are extracted balances from Harbhajan's business accounts along with other information relating to the business's year end on 30 April 2017. For some reason, the figure for Capital at the beginning of the year has not been supplied, although you have been given the year end net profit figure:

	£
Capital as at 1 May 2016	Unknown
Machinery at cost	100,000
Sales Revenue	59,000
Motor Vehicles at cost	50,000
Purchases	25,000
Trade Receivables	13,500
Trade Payables	12,500
Accumulated [*provision for*] depreciation: Machinery	10,000
HM Revenue and Customs: VAT (owing)	7.750
Net Profit as at 30 April 2017	7,105
Accumulated [*provision for*] depreciation: Motor Vehicles	5,000
Water and Utilities	4,500
Inventory as at 1 May 2016	3,500
Wages and Salaries	3,500
Rent	3,000
Bank (in funds)	1,800
Purchases Returns	1,355
Business Rates	1,250
Bad Debts written off	1,150
Sales Returns	1,250
Discounts Allowed	950
Cash in Hand	760
Drawings	750
Discounts Received	550

The Rent figure includes £600 relating to May, June and July 2017.
The Machinery still has to be depreciated at year end by 10% straight line.
There was unpaid Wages and Salaries at year end 30 April 2017 of £800.
Stocktake at year end 30 April 2017 valued Inventory at £5,000.
Motor Vehicles need year end depreciation (diminishing [*reducing*] balance at 10%).
Use the information given about Harbhajan's business as appropriate to prepare a Statement of Financial Position for its year end, including the missing figure for Capital.

[20 marks]

QUESTION THREE

Lady Gaga Plc is a renowned record manufacturing company and has received a one off order from Ginger Blears an English member of parliament to write and manufacture a song for her about how honourable she is. In addition to demonstrate her selfless efforts to public duty the record should be made from platinum, a more expensive material than the usual material used to manufacture records. Ms Blears is happy to pay for this record out of her expenses claiming it back from the taxpayer.

Currently Lady Gaga Plc's work force is at full capacity and would have to stop work on existing songs in development such as "If you don't know me by now" and "Everything I do, I do it for you" for other trustworthy members of parliament.

The following information is available for the usual manufacture of new songs.

	Per song (£)
Selling price	45,000
Material	(5,000)
Variable overheads	(3,000)
Labour	(2,000)
Contribution	35,000
Fixed overhead	(1,500)
Profit	33,500

What is the lost contribution suffered by Lady Gaga Plc if it accepted the order from Ginger Blears?

[20 marks]

QUESTION FOUR

Z plc is preparing a quotation for a one off contract to manufacture an item for a potential customer. The item is to be made of steel and the contract would require 300 kgs of steel. The steel is in regular use by Z plc and, as a consequence, the company maintains an inventory of this steel and currently has 200 kgs in inventory. The company operates a LIFO basis of inventory valuation and its most recent purchases were as follows:

20 November 2006 150 kgs costing £600

3 November 2006 250 kgs costing £1,100

The steel is easily available in the market where its current purchase price is £4.25 per kg. If the steel currently held in inventory was to be sold it could be sold for £3.50 per kg.

Calculate the relevant cost of the steel to be included in the cost estimate.

[20 marks]

QUESTION FIVE

Discuss the relevance cost in decision making.

[Hint, make reference to the group presentation in class]

[20 marks]

Appendix

DCI FINANCIAL COMPNY LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31ST DECEMBER 2017

	2017	2016
	Ghs	**Ghs**
Interest and similar income	29,740,394	17,795,851
Interest and similar expense	(21,236,051)	(12,421,034)
Net interest income	**8,504,343**	**5,374,817**
Fees and commission income	3,476,970	2,699,541
Other operating income	(148,292)	79,805
Total operating income	**11,833,021**	**8,154,163**
Impairment loss	(2,246,222)	(590,975)
Net operating income	**9,586,799**	**7,563,188**
Personal expenses	(3,335,580)	(2,410,969)
Finance costs	(510,367)	(604,740)
General, selling and administrative expenses	(2,441,129)	(2,201,765)
Total operating expenses	**(6,287,076)**	**(5,217,474)**
Profit before Tax	**3,299,723**	**2,345,714**
Income Tax	(843,118)	(727,046)
Profit after Tax	**2,456,605**	**1,618,668**
Other comprehensive income	-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**2,456,605**	**1,618,668**

Appendix

DCI FINANCIAL COMPNY LIMITED

STATEMENT OF FINANCIAL POSITION AS OF 31ST DECEMBER 2017

	2017	2016
Assets	**Ghs**	**Ghs**
Current assets		
Cash and cash equivalents	10,098,698	2,337,761
Investments	43,308,994	20,031,599
Loans and advances	53,680,782	33,910,543
Other assets	12,880,640	8,331,702
Total current assets	**119,969,114**	**64,611,605**
Non-current assets		
Property plant and equipment	2,028,996	1,555,233
Intangible assets	94,349	47,559
Deferred tax assets	145,557	147,744
Total non-current assets	**2,268,902**	**1,750,536**
Total Assets	**122,238,016**	**66,362,141**
EQUITY		
Stated capital	15,000,000	1,200,000
Shareholders contribution	395,951	10,900,000
Regulatory risk reserve	3,274,384	2,629,199
Statutory reserve fund	2,634,326	1,406,024
Retained earnings	734,360	313,109
Total equity	**22,039,021**	**16,448,332**
Current liabilities		
Customer deposits	84,739,889	45,272,731
Interest payable and other liabilities	4,674,000	3,010,830
Interest payable on long-term debts	138,083	-
Taxation	647,023	493,964
Bank overdraft	-	1,027,393
Total current liabilities	**90,198,995**	**49,804,918**
Non-current liabilities		
Long-term debts	10,000,000	-
Deferred tax liabilities	-	108,891
Total non-current liabilities	**10,000,000**	**108,891**
TOTAL LIABILITIES AND EQUITY	**122,238,016**	**66,362,141**