QUESTION 1

(a) Explain the advantages and disadvantages of a currently unlisted company obtaining a listing on the Stock Exchange (***4 marks***)

(b) (i) Describe the following terms:

1) "A company being over-capitalised"

2) "A company over-trading" (***4 marks***)

(ii) Explain how the situation of a company being over-capitalised arises and what are the consequences thereof. (***4 marks***)

(c) A local bank is advertising that it pays depositors 6% compounded monthly, yielding an effective annual rate of 6.168%. If GHC2,000 is placed in savings now and no withdrawals are made, how much interest will be earned in one year? (***4 marks***)

(d) The Treasurer of your company has determined that the company needs GHC30,000 per week to meet its cash requirement. Surplus funds can be invested in Treasury bills which yield 15% per annum.

It was further noted that, it will cost GHC20 in administrative cost each time you convert Treasury bills for cash. Assume 52 weeks in a year.

You are required to

Compute the optimum amount of Treasury bills you need to sell each time you need cash. (***4 marks***)

(**Total: 20 marks**)

QUESTION 2

(a) Two companies, A Ltd and B Ltd, listed on the Ghana Stock Exchange have statements of financial position as set out below:

	A Ltd	B Ltd
	GHC	GHC
Equity Shares	1,000,000	200,000
Income Surplus	400,000	200,000
Long-Term Loan	200,000	200,000
	1,600,000	600,000

Non-current Assets	1,200,000	400,000
Net Current Assets	400,000	200,000
	1,600,000	600,000

Other information concerning the two companies is as follows:

	A Ltd	B Ltd
Number of Equity shares issued and outstanding	1,100,000	500,000
Maintainable annual profit after-tax attributable to equity	GHC240,000	GHC150,000
Current market price of equity shares	GHC2.40	GHC2.70
Current Earning Per Share (EPS)	24GP	30GP
Price-Earning (PE) ratio	10	9

A is proposing to take over B by means of an issue of its own shares in exchange for those of B and has to decide on the terms of its offer.

What offer should the directors of A make to the shareholders of B based on the following valuation methods:

(i) Net Asset Value (***8 marks***)

(ii) Market Value (***8 marks***)

(b) Stay Blessed Company Ltd plans to borrow GHC100,000 for a 90 day period from S & T Finance Company. Stay Blessed would repay the principal amount plus GHC5,000 interest at maturity.

Calculate the Annual Percentage Rate of the credit to Stay Blessed Company Ltd.

(***4 marks***)

(**Total: 20 marks**)

QUESTION 3

(a) Ohia Limited has annual credit sales of GHC5 million and cost of sales of GHC1.8 million. The company's current assets consist of inventory and trade receivables. Current liabilities consist of accounts payables and an overdraft facility with an average interest rate of 10% per annum. The company gives 60 days credit to its customers and is allowed an average of 30 days credit by trade suppliers. The company has an operating cycle of 90 days.

Other relevant information:

Current ratio of Ohia Ltd 1.5:1

Cost of long term finance to Ohia Ltd is 12% per annum

Required:

Calculate the,

(i) size of the overdraft of Ohia Ltd (***4 marks***)

(ii) net working capital of the company (***3 marks***)

(iii) total cost of financing its current assets (***3 marks***)

(b) Moon Ltd has 5 million shares outstanding at GHC30 each, 2 million preference shares trading at GHC20 each and 2000 bonds trading at GHC500 each.

Required:

(i) Calculate the capital structure of the company. (***3 marks***)

(ii) How much must the firm earn annually in order to satisfy its three classes of providers of funds if the equity holders require 25% return on capital employed, dividend rate on preference shares is 20% and the coupon rate on the bonds is 15%. In this economy, interest paid on debt is tax deductible. Corporate tax rate is 25%. (***5 marks***)

(c) Differentiate between Policy Lending Rate and Base Lending Rate. (***2 marks***)

(**Total: 20 marks**)

QUESTION 4

Towards the end of 2009, several Ghanaian banks made right issues (privileges subscriptions) to their shareholders to buy additional shares. One bank's offer opened on September 28 and closed on October 23. It expected to sell 137,376,090 additional shares at GHC0.60 each.

Suppose the bank had previously issued 274,752,180 shares to shareholders which were selling at GHC0.75 each during this period.

Required:

(a) If shareholder Omega received one right, how many shares did Omega have prior to the rights issue? (***2 marks***)

(b) Omega is interested in the offer. Do you think she exercised her right on October 15? Why or why not? (***2 marks***)

(c) Mr. Alpha was not a shareholder and so he received no rights. Alpha wanted to buy shares at the exercise price of GHC0.60 each however. How did he go about achieving his objective? (*3 marks*)

(d) If the additional money raised is invested to earn a fair return, how much did Alpha eventually pay for each share if he eventually bought 3 shares? (*6 marks*)

(e) Shareholder Beta owned 10% of the shares of the bank prior to the rights issue. If she did not exercise her rights, what proportion of the bank does she now own? (*3 marks*)

(f) What happened to the difference between the proportion in (e) and her original 10%? (*4 marks*)

(**Total: 20 marks**)

QUESTION 5

(a) (i) Identify the drawbacks of hedging exchange rate risk by using a swap agreement. (*4 marks*)

(ii) Discuss the ways in which international capital investment decisions can be distinguished from domestic capital investment decisions. (*4 marks*)

(b) Nsuro Limited is considering a bid for the acquisition of Staycool Limited. Both companies are listed on the stock market and are in the same industry. The financial data on Staycool Limited which is soon to pay its annual dividend is as follows:

Number of ordinary shares	10 million
Market price per share	GHC4.20
Earnings per share	GHC0.50
Dividend per share 1 year ago	GHC0.25
Dividend per share 2 years ago	GHC0.20
Proposed payout ratio	45%

Additional financial information:

Average price-earnings ratio	12
Equity beta	1.5
Risk free rate of return	5%
Return on the market	11%

Required:

Calculate the value to be placed on the shares of Staycool Ltd prior to the takeover using the following methods:

(i) Dividend growth model (*6 marks*)

(ii) Price-earnings ratio method (*6 marks*)

(**Total: 20 marks**)