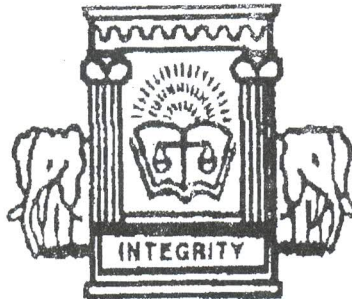


THE INSTITUTE OF CHARTERED
ACCOUNTANTS (GHANA)



MAY 2010 EXAMINATIONS
(PROFESSIONAL)

PART 3

FINANCIAL MANAGEMENT
(Paper 3.4)

Attempt ALL Questions

TIME ALLOWED:

Reading & Planning	-	15 Minutes
Workings	-	3 Hours

QUESTION 1

- a) The influence of the various parties with interest in the firm results in the firm adopting many non-financial objectives.

You are required to explain **five (5)** non-financial objectives of a firm.

(5 marks)

- b) Explain the difference between an Interest Rate Swap and a Foreign Currency Swap.
(5 marks)
- c) The Treasury bill rate is 24% and the expected risk premium on the equity of your firm is 10%. If the expected return on the market portfolio is 5%, what is the beta of your company?
(5 marks)
- d) Comment on the following "Since interest rates are high now, firms seeking to raise funds should not sell bonds. Rather they should issue equity".
(5 marks)

(Total: 20 marks)

QUESTION 2

Okukuseku Ltd is financed by three types of capital:

- a) One million of 50p ordinary shares each having current market value of GH¢5.20 cum div. The current dividend, which is due to be paid shortly, is 20p per share. The dividend has grown steadily in the past at a compound annual rate of 15% and is generally expected to continue doing so indefinitely.
- b) 200,000 GH¢1 irredeemable 8% preference shares, each having a current market value of 50p ex div.
- c) GH¢2 million 10% Loan (debenture), redeemable in 20 years at a price GH¢110. The current market value is GH¢80 ex int.

Okukuseku is considering a new project having the same risk characteristics as existing projects, which would require an immediate outlay of GH¢150,000 and would produce annual net cash inflow of GH¢30,000 indefinitely.

You are required to:

Prepare calculations showing whether acceptance of the new project is worthwhile.

20 marks

