

# Chartered Banker

Leading financial professionalism

## CORPORATE FINANCE

### Assignment 1

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Charitable Body: The Chartered Institute of Bankers in Scotland (CIOBS) – Reg No.: SC013927



## Important Assignment Information

### ASSIGNMENT LENGTH

For assignments submitted on or after **1st September 2008**, there is a **maximum** word count of **2,500 words**.

From that date, if you fail to adhere to the maximum word count, a deduction will be made to your final assignment mark. Specifically, if you exceed the 2,500 limit, you will be deducted **1%** for every **100** words or **part** of **100** words over the limit.

For example, if you write a total of **2,614** words, a **2%** deduction will be made to your mark. For clarification, the word count includes all references and attached appendices.

### PASS COMPENSATION AWARD

In recognition of the importance attached to the assignments, an award of **Pass Compensation** will be made to you if you score between 45% and 54% in the final exam and if you complete the required assignment(s) under the following conditions:

1. The assignment mark must be 60% or above – where two assignments are required, then the average mark must be 60% or above **and**
2. Assignments must be in the hands of the Tutor **at least** one month prior to the **chosen examination date for each subject**.

For example, if you enrol to sit a **full** credit subject examination on **15<sup>th</sup> December**, you must have sent **both** assignments to your tutor by **15<sup>th</sup> November**.

Similarly, if you enrol to sit a **half** credit subject examination on **2<sup>nd</sup> March**, you must have sent the **sole** assignment to the tutor by **2<sup>nd</sup> February**.

Please also note the following:

- (a) Where an assignment is marked at less than 60%, this may show up as **'Fail'** in the web-based student record – this is purely with reference to the Pass Compensation award and does not necessarily mean it is a sub-standard submission
- (b) You are **not** permitted to **re-submit** an assignment in order to gain a higher mark
- (c) In the event that you fail an exam and have not completed the required assignment(s), you can subsequently complete the required assignment(s) – these will then count towards any re-sit examination undertaken. Submission dates for these assignments must comply with the relevant timescales as stated in **2** above.

## Question 1

You are the financial director of a company considering the following two capital investment projects:

		<b>Project A</b>	<b>Project B</b>
		<b>£</b>	<b>£</b>
Cash expenditure	At outset	410,000	500,000
Cash inflow	Year 1	140,000	170,000
Cash inflow	Year 2	170,000	195,000
Cash inflow	Year 3	135,000	180,000
Cash inflow	Year 4	110,000	140,000

Your company considers its cost of capital to be 13%. For Project B, assessed as the riskier project of the two, a risk-adjusted cost of capital of 15% is considered appropriate.

Base rate is presently 5% and the company pays a margin of 1%, giving an all in borrowing rate of 6%. Inflation is presently 3%.

- (a) Assess the two projects using the investment appraisal technique of internal rate of return.

**(14 marks)**

- (b) State which project you would recommend to your board and explain in detail your reasons.

**(6 marks)**

**(TOTAL 20 MARKS)**

## Question 2

Using the internet, peruse the Annual Reports of two PLCs in the same sector, but not in financial services nor in telecoms and:

(a) Calculate for each company the:

- Capital gearing
- Income gearing.

*(Please ensure that you provide your tutor with the web page links in respect of the company accounts you have used)*

**(6 marks)**

(b) Give your opinion on the vulnerability of this industry to the economic, or trade, cycles.

**(6 marks)**

(c) Give your opinion on the operating gearing of each of the companies you have chosen.

**(8 marks)**

**(TOTAL 20 MARKS)**

## Question 3

(a) Explain the principles of the time value of money theory.

**(6 marks)**

(b) Analyse the economic influences that can impact on a business and explain what a banker should do to assess their effect on the customer.

**(6 marks)**

(c) Explain what is meant by “risk and reward” and discuss its relevance in corporate finance.

**(6 marks)**

**(TOTAL 18 MARKS)**

## Question 4

(a) Explain the main sources of finance available to a company.

**(10 marks)**

(b) Explain the difference between cash flow and accounting profit.

**(4 marks)**

(c) Which is the cheaper way for a company to raise capital, through equity capital or through loan / debt capital, and why?

**(4 marks)**

(d) Explain mezzanine finance.

**(4 marks)**

**(TOTAL 22 MARKS)**

## Question 5

(a) Your customers are considering a flotation on the London Stock Exchange. What are the requirements for a listing?

**(10 marks)**

(b) Describe the issues facing the directors of a listed company as they frame its dividend policy.

**(6 marks)**

(c) Explain what is meant by the following terms:

- Cost of capital
- Internal rate of return.

**(4 marks)**

**(TOTAL 20 MARKS)**

**TOTAL ASSIGNMENT MARKS – 100**