

Homework — What Finance Is For, and Where It Is Done

Optional. Worked solutions are on the website

Practice problems

0.1

1. A trading business earns GH¢400,000 of profit in a year on GH¢5 million of owners' money invested in it. A government treasury bill is paying 21%. Can you conclude from those two figures that the business created or destroyed value for its owners this year? Explain your answer in two sentences, and name one thing you would want to know before being confident.
2. Classify each of the following as an investment decision, a financing decision, or a working-capital decision: (a) offering customers 60 days to pay instead of 30; (b) buying a competitor; (c) replacing a bank overdraft with a three-year term loan; (d) holding two months of stock instead of one; (e) issuing shares to a private equity fund.
3. In your own words, and in no more than three sentences: why is it possible for a company to report a profit and still be destroying value for its owners?

0.2

1. A bank's credit analyst and a private equity associate are both looking at the same company. Name two things the credit analyst will care about more, and two the associate will care about more. Explain why in one sentence each.
2. Firm A and Firm B each buy equipment for GH¢24 million with no salvage value. A uses a four-year useful life; B uses eight years. (a) Compute annual straight-line depreciation and the first-year profit difference. (b) Nothing about cash differs. What evidence would you request before concluding B is more profitable? Separately, sales rise 20%, receivables rise 65%, and the bad-debt provision falls. Give one benign explanation, one aggressive-accounting explanation, and one test that helps distinguish them.
3. A friend says: "I want to work in finance but I'm studying accounting, so it's too late." Respond in three sentences.