



NATIONAL OPEN UNIVERSITY OF NIGERIA
PLOT 91, CADASTRAL ZONE, NNAMDI AZIKIWE EXPRESSWAY, JABI, ABUJA
FACULTY OF MANAGEMENT SCIENCES
DEPARTMENT OF FINANCIAL STUDIES
2020_2 EXAMINATION

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| COURSE CODE: | BFN732 | CREDIT UNIT: 2 |
| COURSE TITLE: | BUSINESS FINANCE | TIME ALLOWED: 2 Hours |
| INSTRUCTIONS: | 1. Attempt Question Number one (1) and any other two (2). 2. Question Number 1 is compulsory and carries 30 marks, while the other questions carry 20 marks each 3. Present all your points in coherent and orderly manner | |

1(a) The following are the details of a production factory

| Months | Budgeted consumption(Units) |
|-----------|-----------------------------|
| January | 600 |
| February | 600 |
| March | 1000 |
| April | 1200 |
| May | 1600 |
| June | 2000 |
| July | 2000 |
| August | 2000 |
| September | 2000 |
| October | 1800 |
| November | 1200 |
| December | 800 |

Delivery period for suppliers:

| | |
|-------------------|-------------|
| Maximum | 4 months |
| Average | 3 months |
| Minimum | 2 months |
| Re-order quantity | 4,000 units |

Required to: Calculate the followings (Show all workings)

- I. Re-order level
- II. Maximum Stock Level
- III. Minimum Stock Level
- IV. Average Stock Level

1(b) Differentiate between Undercapitalization and Overcapitalization of working capital

(30 Marks)

2a. Okoye & Sons Ltd is faced with the choice between two projects requiring ₦5,000,000 initial outlay. Project A has an even annual cashflow of ₦500,000. Project B has the following cash flow profile:

| Year | (₦) |
|------|-----------|
| 1 | 1,000,000 |
| 2 | 1,100,000 |
| 3 | 1,200,000 |
| 4 | 1,000,000 |
| 5 | 950,000 |

12 marks

2b. Briefly explain any four (4) advantages and four (4) disadvantages of payback period.

1 mark each x 8 = 8 marks

3a. The Modigliani-Miller hypothesis is based on certain assumptions relating to the capital market, behaviour of investors, actions of the firm and tax environment. What are these assumptions?

2.5 x 4 marks = 10 marks

3b. Notwithstanding the assumptions mad to take care of certain uncertainties, the M-M Hypothesis has been bedevilled with a lot of criticisms. You are required to explain the criticisms.

2.5 x 4 marks = 10 marks

4. Fineface Nig. Ltd has proposed an investment project worth ₦8m with expected cash flows:

| Yrs | Cash flows (₦) |
|-----|----------------|
| 1 | 5,000,000 |
| 2 | 6,000,000 |
| 3 | 8,000,000 |

Given discount rate of 25% calculate the NPV if the scrap value at the end of 3 years is ₦100,000. Is the project viable enough to be invested in? (*Invigilator, please note that candidates are allowed to use Present Value Table*)

20 marks

5a. Define Capital Rationing

5 marks

5b. Explain five (5) advantages and five (5) disadvantages of Capital Rationing

10 marks

5c. Identify and explain any five (5) different situations of Capital Rationing

5 mark