



**NATIONAL OPEN UNIVERSITY OF NIGERIA**  
**PLOT 91, CADASTRAL ZONE, NNAMDI AZIKIWE EXPRESSWAY, JABI, ABUJA**  
**FACULTY OF MANAGEMENT SCIENCES**  
**2021\_1 EXAMINATION**

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**COURSE CODE:** BFN 303 **CREDIT UNIT: 3**  
**COURSE TITLE:** FINANCIAL MANAGEMENT  
**TIME ALLOWED:** 2½ Hours  
**INSTRUCTIONS:** 1. Attempt question Number one (1) and any other three (3).  
2. Question number 1 is compulsory and carries 25 marks, while the other questions carry 15 marks each  
3. Present all your points in coherent and orderly manner

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- 1a. State five benefits of effective risk management. *5marks*  
b. Indicate five method of effective risk management. *5marks*  
c. State five of the benefits cost of capital during decision making. *5marks*  
d. Highlight six roles of finance manager in an organization. *3marks*  
e. There are two firms NOUN Plc. and NUC Plc. which are exactly identical except that NOUN does not use any debt in its financing, while NUC has N2,500,000, 6% Debentures in its financing. Both the firms have earnings before interest and tax of N75,000 and the equity capitalization rate is 10%. Assuming the corporation tax is 50%, calculate the value of the firm. *9mark*
- 2a. Enumerate five importance of asset management in an organisation *5marks*  
b. What are the five major determinants of merger and acquisition? *5marks*  
c. Indicate five of the assumptions underlying capital structure of a firm *5marks*
- 3a. COVID, a project cost N25million with cash inflow of:
- Year 1     N6m
- Year 2     N12m
- Year 3     N8m
- Year 4     N8m
- The cost of capital is 10%. Compute the net terminal value of the project. *10marks*  
b, Highlight five (5) benefits of embarking on merger and acquisition. *5marks*

4. Abuja Limited wishes to make a take-over bid for the shares of an unquoted company, Yola Limited over the past five years have been as follows.

2011	N250,000
2012	N360,000
2013	N340,000
2014	N355,000
2015	N375,000

The average P/E ratio of quoted companies in the industry in which Yola Limited operates is 5. Quoted companies which are similar in many respects to Abuja Limited are: Sokoto Plc., which has a P/E ratio of  $7\frac{1}{2}$ , but is a company with very good growth prospects; Federal Plc., had a poor profit record for several years, and has a P/E ratio of  $3\frac{1}{2}$ ; What would be a suitable range of valuations for the shares of Yola Limited?

**15marks**

5a. Indicate three assumptions of Modigliani and Miller theory

**3marks**

b. The information below is in respect of Okoh Nigeria Limited;

	Millions(N)	Millions(N)	Millions(N)
Quarters	A	B	C
Inventories-Raw materials	100	140	160
Work in progress	78	90	100
Finished Goods	90	128	160
Purchases	500	700	800
Cost of goods sold	800	900	980
Sales	800	1,900	1,200
Debtors/Receivables	170	200	280
Creditors/ Payables	90	100	120
Assuming 365 days in a year			

Compute the operating cycle of Okoh Nig. Ltd.

**12marks**