



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

COURSE CODE: BFN715 **CREDIT UNIT:** 2
COURSE TITLE: PRINCIPLES OF 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

- 1a. Differentiate between capital and capital formation **10 marks**
- 1b. An invoice of ₦1,000 attracts 2% discount for paying within 10 days with 30 days credit period. What is the cost of not taking the cash discount? **15 marks**
- 1c. Consider a share of preferred stock with a par value of ₦100 that pays an 8% annual dividend. If the discount rate for this share is 12 per cent, what is the worth of the preferred stock? **5 marks**
2. The modern functions of a financial manager have broadened to include analytical aspects of an organization's finances. Discuss any five (5) of such functions. **20 marks**
- 3a. Short-term sources of funds represent current liabilities (funds owed). They represent short-term obligations which must be settled as at when due. Flowing from this, explain with examples current liabilities and their sources. **10 marks**
- 3b. Preference shareholders are entitled to fixed dividend payment as different from equity shareholders which are entitled to variable dividend payments. Explain any five (5) types of preference shares. **10 marks**
- 4a. To meet its day-to-day financial needs, firms usually borrow on short-term funds from banks. This form of borrowing is associated with some cost – cost of bank overdraft; and this cost is termed interest. You are required to discuss the basis for the rate of interest charged on the amount borrowed. **12 marks**
- 4b. Assuming the interest on bank overdraft is an allowance charged against corporation tax, the normal rate will be reducing by the rate of company tax. The nominal interest rate charged on bank overdraft is 9%. Given a company tax rate of 40%, calculate the effective cost of the overdraft. **8 marks**