NATIONAL OPEN UNIVERSITY OF NIGERIA
Plot 91, Cadastral Zone, Nnamdi Azikiwe Express Way, Jabi-Abuja
Faculty of Management Sciences, Department of Financial Studies
2021_1 EXAMINATION 1234

Course Code: BFN732 Credit Unit: 2
COURSE TITLE: BUSINESS FINANCE
Time Allowed: 2 HOURS
Instructions:
1. Attempt Question 1 and any other two (2) Questions.
2. Question 1 is compulsory and carries 30 marks while the other 2 Questions carry 20 marks each.
3. Present all your points in a coherent and orderly manner

QUESTIONS

(1a) Itemise five (5) factors that may influence financial manager's decision when choosing the appropriate sources of financing? **(10 marks)**

(1b) NOUN Limited has a net operating income of N200,000 with a weighted average cost of capital of 18%. The firm currently has a 12% N500,000 debt in its capital structure. Using the net operating income approach,

(i) Calculate the value of the firm and the cost of equity of the firm **(10 marks)**

(ii) Assuming the debt is increased to N600,000 while other variables remain constant, how will it affect your calculation of the value of the firm and hence the cost of equity? **(10 marks)**

2a. List the traditional and discounted cash flow techniques of project appraisal. **(5 marks)**

2b. Your valued customer Aboki Nigeria Limited who is into bottled water production is faced with two project proposals for the purchase of new equipment. The cash flows for each equipment are projected as follows;

Year	Project A (N)	Project B (N)
0	- 40,000	-45,000
1	7,500	15,000
2	10,500	15,000
3	12,500	15,000
4	15,000	15,000
5	17,500	15,000

A consultant has estimated the company's cost of capital to be 12%.

Required

(a) Calculate the Net Present Value (NPV) of both assets and recommend which of them should be purchased? **(5 marks)**

(b) What is the profitability index for each project? **(5 marks)**

3a. Distinguish between soft and hard case capital rationing situations (4 marks)

FGF Limited has at its budget's disposal, the sum of N7,000 which it can invest in five projects with the following cash flows at 10% cost of capital.

Project	**A**	**B**	**C**	**D**	**E**
Initial Outlay	2,000	4,000	1,000	4,000	3,000
Cash inflows	2,632	9,056	1,251	5,578	3,227

Required

Which possible combination of the projects should the firm select on the basis of NPV and PI if the projects are independent and indivisible? (11 marks)

4a. Define Economic Order Quantity and state the assumptions that underlie its smooth application **(6 marks)**

4b. EEC Engineering Ltd which repairs and services motor vehicles uses 50,000 units of oil and fuel filter per annum. The average price per unit of the filters is estimated at N30. Ordering and handling cost are N100 per order and carrying costs are 10 per annum.

Required

i. Determine the EOQ (3 marks)
ii. Number of orders per annum (3 marks)
iii. Calculate the ordering costs per annum (3 marks)