



**NATIONAL OPEN UNIVERSITY OF NIGERIA**  
**PLOT 91, CADASTRAL ZONE, NNAMDI AZIKIWE EXPRESSWAY, JABI, ABUJA**  
**FACULTY OF MANAGEMENT SCIENCES**  
**DEPARTMENT OF FINANCIAL STUDIES**  
**2021\_2 EXAMINATION**

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<b>COURSE CODE:</b>	<b>BFN715</b>	<b>CREDIT UNIT: 2</b>
<b>COURSE TITLE:</b>	<b>PRINCIPLES OF FINANCE</b>	
<b>TIME ALLOWED:</b>	<b>2 Hours</b>	
<b>INSTRUCTIONS:</b>	<b>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</b>	

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1. Assume XYZ Ltd has the following situation for the second quarter of 2019.

**Cash Inflow from:**

- (1) Capital and/or loans introduced ₦100,000.00 (2) Sales proceeds (cash received) 200,000.00  
(3) Collection of accounts receivables 160,000.00

**Cash Outflows on:**

- (4) Loan repayment ₦120,000.00 (5) Fixed assets: (i) Land and buildings 30,000.00  
(ii) Plant and equipment 40,000.00 (iii) Others 10,000.00  
(6) Operating Expenses:  
(i) Raw materials 160,000.00 (ii) Packaging materials 20,000.00 (iii) Salaries 60,000.00 (iv) Transport and Freight 50,000.00 (v) Excise duties 32,000.00 (vi) Factory expenses 30,000.00 (vii) Office expenses 8,000.00  
(7) Other Expenditure:  
(i) Interest charges 40,000.00 (ii) Other bank charges 20,000.00  
a) Does the firm have a net surplus or a net deficit?  
b) Depending on your answer in 1a above, if the firm's bank cash balance at the end of the last quarter was ₦20,000, how much (if any) would the firm need within the period considered? Show full working!

**30 marks**

2a. "...financial management itself requires the simultaneous consideration of three key financial decisions" (Christy and Roden, 1973). Briefly discuss the three key financial decisions. **5 marks**

2b. The modern functions of a financial manager have broadened to include analytical aspects of an organisation's finances. Explain any ten (10) of his functions. **10 marks**

2c. The financial manager can make a forecast of the firm's financial requirements for a period of one month, one year or many years ahead. Forecasts are normally made in the form of budgets. Briefly explain these forms. **5 marks**

3a. The functions of finance include sourcing and application of funds, and demands that money is used in the firm wisely, that is, when and where it is desired. Describe the aims of finance function. **10 marks**

3b. Short-term sources of funds represent current liabilities (funds owed). They represent short-term obligations. Discuss any five (5) sources of short-term funds. **10 marks**

4a. Describe Cost of Trade Credit **2 marks**

4b. An invoice of ₦5,000 attracts 2% for paying in these 10 days and 30 days credit period. What is the cost of not taking the cash discount? **12 marks**

4c. Discuss briefly the two major external sources of long-term funds. **6 marks**

5a. Explain the characteristics of financial lease. **8 marks**

5b. What is bonus issue? **4 marks**

5c. Let us consider a Balance sheet of Abua Nigeria Ltd:

<b>Capital</b>	<b>₦</b>
100,000 ordinary shares @ ₦1.00 each	100,000
Revenue Reserve	<u>250,000</u>
Total	<u>350,000</u>
<b>Assets</b>	
Fixed Assets	190,000
Current Assets	<u>160,000</u>
	<u>350,000</u>

The company can now decide to capitalize a part of the revenue reserve. If the amount to be capitalized is ₦100,000,

a) How many shares will each old share now attract? **2 marks**

b) Rearrange the financial statement following the capitalization of a part of the revenue reserve or bonus issue. **6 marks**