



NATIONAL OPEN UNIVERSITY OF NIGERIA
PLOT 91, CADASTRAL ZONE, NNAMDI AZIKIWE EXPRESSWAY, JABI, ABUJA
FACULTY OF MANAGEMENT SCIENCES
DEPARTMENT OF FINANCIAL STUDIES
2019_1 EXAMINATION

COURSE CODE: BFN732 **CREDIT UNIT: 2**
COURSE TITLE: BUSINESS FINANCE
TIME ALLOWED: 2 HOURS
INSTRUCTIONS:

- 1. Attempt Question One (1) and any other two (2) questions**
 - 2. Question 1 carries 30 marks, while the other questions carry 20 marks each**
 - 3. Present all points in coherent and orderly manner**
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1. A firm's requirement for working capital is primarily affected by certain essential factors or determinants. Discuss ten (10) of these factors/determinants in the light of Nigerian economic context. **(30 marks)**

2. Bully Limited presents the following data for the purpose of working capital analysis on 31st December, 2017.

Sales	₦800,000
Purchases	₦210,000
Cost of goods sold	₦100,000
Stock	₦200,000
Debtors	₦200,000
Creditors	₦ 70,000

Additional Notes:

- i. All sales are on credit basis
- ii. All purchases are on credit basis
- iii. Bully Ltd has no concrete working capital policy

Requirement:

Calculate the following:

- i. Stock turnover
- ii. Average collection period
- iii. Average payment period

- iv. Length of cash operating cycle
- v. Advise the management of Bully Limited on the results **(20 marks)**

3. (a) Explain the concept of Cash Management
 (b) Discuss five (5) each of the advantages and disadvantages of Accounting Rate of Return (ARR) **(20 marks)**

4. Gajiram Limited intends to undertake a project requiring initial outlay of ₦13,000,000. The projects presents two (2) scenarios with regards to the annual cash inflow as follows:

Scenario A

Year	Annual Cash flow (₦)
1	4,000,000
2	4,000,000
3	4,000,000
4	4,000,000
5	4,000,000

Scenario B

Year	Annual Cash flow (₦)
1	6,000,000
2	4,000,000
3	2,000,000
4	1,500,000
5	2,500,000

Requirement:

- i. Calculate the payback period under both scenarios
- ii. Advise Gajiram Limited on which project to undertake **(20 marks)**

5. (a) Discuss the concept of Capital Rationing
 (b) Explain the assumption of Capital Rationing
 (c) Explain the reasons for Hard Capital Rationing **(20 marks)**