



NATIONAL OPEN UNIVERSITY OF NIGERIA
Plot 91 Cadastral Zone Nnamdi Azikiwe Express Way, Jabi-Abuja
FACULTY OF MANAGEMENT SCIENCES
DEPARTMENT OF FINANCIAL STUDIES
JANUARY 2018 EXAMINATION QUESTIONS

Course Code: BFN 732

Course Units: 2

Course Title: Business Finance

Time Allowed: 2 ½ Hours

Instructions:

- i). Attempt question number one (1) and any other (3) questions.**
- ii). Question number 1 carries 30 marks, while the other three (3) questions carry 15 marks each.**
- iii). Present all your points in coherent and orderly manner**

Q1(a). Explain the term 'Working Capital'. (10 Marks).

Q1(b). 'High levels of working capital decrease risk and increase return'. From your knowledge of the theories of working capital, argue this case. (20 Marks).

Q2. What are the determinants of amount of Working Capital needed by a firm? (20 Marks).

Q3. Ojonugwa Company Ltd is considering whether to purchase a machine for N250,000 which will save cost of N50,000 p.a. for five years and resale value of N20,000 at the end of the fifth year. What will be the IRR of the investment project if the cost of capital is 10%? (20 Marks).

Q4(a). A company's total investment in assets is N20,000,000. It has 100,000 shares of N.200 each. Its expected rate of return on investment is 25% and the cost of capital is 15%. The company has a policy of retaining 20% of its profits. Determine the value of the firm Gordon's model. (12 Marks).

Q4(b). What factors are in favour of profitability index? (8 Marks).

Q5(a). Capital rationing is bedeviled with many problems. List and explain five of these problems. (10 Marks). Q5(b). What are the factors that lead to hard capital rationing? (10 Marks).