



NATIONAL OPEN UNIVERSITY OF NIGERIA
Plot 91 Cadastral Zone Nnamdi Azikiwe Express Way, Jabi-Abuja
FACULTY OF MANAGEMENT SCIENCES
DEPARTMENT OF FINANCIAL STUDIES
2024 1 EXAMINATION

Course Code: BFN 303
Course Title: Financial Management
Time Allowed: 2 ½ HOURS
Instructions:

Credit Unit: 3

1. Attempt Question 1 and any other three (3) Questions
 2. Question 1 is compulsory and carries 25 marks while the other 3 Questions carry 15 marks each.
 3. Present all your points in a coherent and orderly manner.
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QUESTION ONE

a. Explain the term Inventory Management

(5 marks)

b. The following records were obtained from the inventory management system of Success Limited:

- Usage of Component at a rate of 72,000 per annum
- Cost of obtaining the component – 75k each
- Cost of requesting and transporting the components to the warehouse – ₦55
- Storage cost is 17% of the cost of the component.

You are required to: Calculate the Economic Order Quantity

(9 marks)

c. Mention five (5) factors that influence the credit control policy of an organization **(5 marks)**

d. Identify and explain the three (3) major methods of financing working capital **(6 marks)**

(Total = 25 marks)

QUESTION TWO

a. Discuss the concept cycle of business

(7 marks)

b. Explain the following forms of business:

- i. Sole proprietorship
- ii. Partnership
- iii. Co-operative society

iv. Public Limited Company

(8 marks)

(Total 15 marks)

QUESTION THREE

- a. Abu Ltd is considering acquiring Ali Ltd. At present, Ali Ltd is earning on average, ₦192,000,000 after tax. The directors of Abu Ltd feel that after reorganization, this figure could increase to ₦245,000,000. All the companies in Abul's group are expected to yield a post-tax accounting return of 25% on capital employed. What should Ali Ltd be valued at? **(5 marks)**
- b. Excel Plc paid a dividend of ₦50,000. The firm has 5,000,000 ordinary shares with a market price of 75kobo per share. What is cost of equity of Excel plc? **(5 marks)**
- c. Mention five (5) circumstances where the valuation of shares is necessary for unquoted company. **(5 marks)**

(Total 15 marks)

QUESTION FOUR

- a. Mention five (5) reasons for establishing multinational companies **(5 marks)**
- b. Noun Ltd requires ₦2,500,000 for a new plant. This plant is expected to yield earnings before interest and taxes of ₦500,000. While deciding about the financial plan, the company considers the objective of maximizing earnings per share. It has three alternatives to finance the project – by raising debt of ₦250,000 or ₦1,000,000 or ₦1,500,000 and the balance, in each case, by issuing equity shares. The company's share is currently selling at ₦150, but is expected to decline to ₦125 in case the funds are borrowed in excess of ₦1,000,000. The funds can be borrowed at the rate of 10% up to ₦250,000 at 15% over ₦250,000 and up to 1,000,000 and at 20% over N1,000,000. The tax rate applicable to the company is 50%. Analyse which form of financing should the company choose? **(10 marks)**

(Total 15 marks)

QUESTION FIVE

The Profit or Loss Account and Statement of Financial Position of Sparkle Nigeria Plc as at 31 December, 2017 and 2018 are as follows:

	2018 ₦'000	2017 ₦'000
Revenue/sales/turnover	2,713,285	3,089,973
Cost of sales	(1,907,419)	(1,954,626)
Gross profit	805,866	1,135,347
Operating expenses	(664,738)	(553,645)
Trading profit	141,128	581,702
Exceptional items	176,157	(5,848)
Other income	72,859	37,085
Interest charges	(105,976)	(80,273)
Profit on ordinary activities before tax	284,168	532,666
Tax on profit on ordinary activities after tax	(69,938)	(191,265)
Profit on ordinary activities after tax	214,230	341,401
Debenture redemption	–	(10,000)
Dividend proposed	(132,875)	(199,313)
Retained profit for the year	81,355	132,088
Reserve at the beginning of the year	464,434	332,364