



NATIONAL OPEN UNIVERSITY OF NIGERIA
University Village Plot 91 Cadastral Zone Nnamdi Azikiwe Express Way, Jabi-Abuja
Faculty of Management Sciences

2021_2 EXAMINATION

COURSE CODE: BFN 732

COURSE TITLE: Business Finance.

Credit Unit: 2

Instruction: Question One (COMPULSORY). Answer Question One and Any Other Two. Question 1 carries 30marks while others carry 20marks each

QUESTIONS

1a. What do you understand by the following terms?

- i. Capital rationing.....**2marks**
- ii. Mutually exclusive projects.....2marks
- iii. Soft case capital rationing.....2marks
- iv. Hard case capital rationing.....2marks
- v. Indivisible projects.....2 marks

1b. Assuming NOUN Plc has three projects A, B, and C and the capital available is N180,000. The projects and the cash flows of the projects are as given below. The projects cost of capital is 10%

Year	0	1	2	3	4
Project A	-80,000	40,000	50,000	60,000	-
Project B	-70,000	60,000	40,000	30,000	20,000
Project C	-70,000	40,000	40,000	40,000	40,000

Using Net Present Value and Profitability Index with the assumption that the projects are divisible, calculate and advise NOUN Plc with regards to the projects to be selected.....**20 marks**

2a. List five (5) techniques of capital budgeting techniques.....**5 marks**

2b. BBC Limited has just been granted a loan of N1,000,000, which the company intends to invest in a broadcasting business. The company estimates that the project will yield the following returns annually for the next five years.

Year	Cash flow (N)
1	30,000
2	30,000
3	40,000
4	30,000
5	20,000

There are no expectations of scrap value, at the end of the 5th year and the company intends evaluate the projects on the basis of IRR, advise BBC on the viability or otherwise of the project.....**15 marks**

3a. Give five (5) reasons a firm must ensure an efficient stock management system.....**10 marks**

3b. A retailer has an annual demand for a certain commodity of 1000 units. He buys from a wholesaler at a cost of N5 per unit and cost of ordering and receiving delivery of a replenishment order is N25 each time. His stock holding cost are 25% of the average stock value per year.

Required

- i. How many units should the retailer order per occasion and how often should he order this quantity to minimize the total relevant cost.....**5 marks**
- ii. What is the total stock cost for the commodity?.....**5 marks**

4a. Itemise four (4) capital structure theories.....**8 marks**

4b. Abuja Limited has net operating income of N400,000 on an investment of N1,500,000 in assets. The firm can issue debt at 15% rate of interest per annum.

(i) Assuming that no taxes are paid and using the net income approach and an equity capitalization rate of 16%, compute the total value of the firm, its weighted or overall cost of capital if no debt and if a debt of N200,000 is issued.....**6 marks**

(ii) Assuming that no taxes are paid and using the net income approach and an equity capitalization rate of 14%, compute the total value of the firm, its weighted or overall cost of capital if no debt and if a debt of N200,000 is issued.....**6 marks**