



**NATIONAL OPEN UNIVERSITY OF NIGERIA**  
**PLOT 91, CADASTRAL ZONE, NNAMDI AZIKIWE EXPRESSWAY, JABI, ABUJA**  
**FACULTY OF MANAGEMENT SCIENCES**  
**DEPARTMENT OF FINANCIAL STUDIES**  
**2020\_1 EXAMINATION**

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**COURSE CODE: BFN732** **CREDIT UNIT: 2**

**COURSE TITLE: BUSINESS FINANCE**

**TIME ALLOWED: 2 Hours**

**INSTRUCTIONS:**

- 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**

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1. “Working capital is a very crucial part of capital as to represents the productive capacity applied to productive assets yielding productive results which is known as utility.”

a) Discuss briefly Working Capital bearing in mind the two components of the concept.

**10 marks**

b) Discuss any five (5) factors that can affect the firm’s requirements of working capital.

In other words, describe the determinants of a firm’s working capital.

**4 x 5 = 20 marks**

2a. Delta Limited is to choose, with the aid of payback Period method, between two projects requiring ₦2,500,000 initial outlay. Project A has an even annual cashflow of 500,000. Project B has the following cash flow profile:

Year	(₦)
1	500,000
2	550,000
3	600,000
4	500,000
5	475,000

Determine the project to be selected by the company.

**12 marks**

2b. Discuss briefly any four (4) advantages and four (4) disadvantages of payback period.

**1 mark each x 8 = 8 marks**

3a. XYZ Company is looking to invest in some new machinery to replace its current malfunctioning one. The new machine, which costs ₦420,000, would increase annual revenue by ₦200,000 and annual expenses by ₦50,000. The machine is estimated to have a useful life of 12 years and zero salvage value. Calculate the Accounting Rate of Return (ARR).

**10 marks**

3b. Discuss the advantages and disadvantages of Accounting Rate of Return **10 marks**

4a. Capital structure can be classified in four (4) ways, two of which are According to Nature and According to Sources. Discuss the other two classifications not mentioned.

**4 marks each x 2 = 8 marks**

4b. A number of theories explain the relationship between cost of capital, capital structure and value of the firm. In order to focus on the key issues, we begin with several simplifying assumptions. Discuss any six (6) of these assumptions.

**2 marks each x 6 = 12 marks**

5a. The Modigliani-Miller hypothesis is based on certain assumptions relating to the capital market, behaviour of investors, actions of the firm and tax environment. What are these assumptions?

**2.5 x 4 marks = 10 marks**

5b. Discuss the criticisms of the M-M hypothesis

**2.5 x 4 marks = 10 marks**