



NATIONAL OPEN UNIVERSITY OF NIGERIA
PLOT 91, CADASTRAL ZONE, NNAMDI AZIKIWE EXPRESSWAY, JABI, ABUJA
FACULTY OF MANAGEMENT SCIENCES
DEPARTMENT OF FINANCIAL STUDIES
2020_2 EXAMINATION

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	

1(a) The following are the details of a production factory

Months	Budgeted consumption(Units)
January	600
February	600
March	1000
April	1200
May	1600
June	2000
July	2000
August	2000
September	2000
October	1800
November	1200
December	800

Delivery period for suppliers:

Maximum	4 months
Average	3 months
Minimum	2 months
Re-order quantity	4,000 units

Required to: Calculate the followings (Show all workings)

- I. Re-order level
- II. Maximum Stock Level
- III. Minimum Stock Level
- IV. Average Stock Level

1(b) Differentiate between Undercapitalization and Overcapitalization of working capital

(30 Marks)

2a. Okoye & Sons Ltd is faced with the choice between two projects requiring ₦5,000,000 initial outlay. Project A has an even annual cashflow of ₦500,000. Project B has the following cash flow profile:

Year	(₦)
1	1,000,000
2	1,100,000
3	1,200,000
4	1,000,000
5	950,000

12 marks

2b. Briefly explain any four (4) advantages and four (4) disadvantages of payback period.

1 mark each x 8 = 8 marks

3a. 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

3b. Notwithstanding the assumptions made to take care of certain uncertainties, the M-M Hypothesis has been bedevilled with a lot of criticisms. You are required to explain the criticisms.

2.5 x 4 marks = 10 marks

4. Fineface Nig. Ltd has proposed an investment project worth ₦8m with expected cash flows:

Yrs	Cash flows (₦)
1	5,000,000
2	6,000,000
3	8,000,000

Given discount rate of 25% calculate the NPV if the scrap value at the end of 3 years is ₦100,000. Is the project viable enough to be invested in? (*Invigilator, please note that candidates are allowed to use Present Value Table*)

20 marks

5a. Define Capital Rationing

5 marks

5b. Explain five (5) advantages and five (5) disadvantages of Capital Rationing

10 marks

5c. Identify and explain any five (5) different situations of Capital Rationing

5 mark