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**FACULTY OF ADMINISTRATION AND MANAGEMENT SCIENCES**  
**DEPARTMENT OF ACCOUNTING**  
**2018/2019 FIRST SEMESTER EXAMINATIONS**  
**ACC 405: STRATEGIC FINANCIAL MANAGEMENT 1**

**INSTRUCTIONS:**

- i. Attempt question number ONE and any other 3
- ii. Borrowing of calculator and/or stationeries is not allowed
- iii. Time Allowed: 2 Hours.

1. The financial intermediation activity in Nigeria is fairly deep with both formal and informal participants facilitating the flow of funds from lenders to borrowers. The financial market traditionally spanning the money and capital markets typifies the spectrum of securities and instruments on offer.

**Required:**

- i. List and discuss any **five** money market instruments available in the market.
- ii. Examine the network of any **three** regulators in the Nigerian Capital Market and discuss their responsibilities and contributions to the market.
- iii. List and discuss any **five** methods of raising capital on the Stock Exchange.
- iv. Appraise the requirements for listing on the Nigerian Stock Exchange.
- v. List the advantages of quotation on the Nigerian Stock Exchange

**25 Marks**

2. The following is an extract from the financial reports of NewDay Plc:

	N'000
Authorised, Issued and fully paid Ordinary Shares of N1.00 each	40,000
Total Market Capitalisation 1/1/17	205,800
<b>Previous dividends paid by the Company:</b>	
31/12/16	35,280
31/12/15	33,600
31/12/14	32,000

The company is considering a new project and wishes to apply the cost of ordinary share capital to the cash flows of the project as a discount factor. Assume that the company does not intend to alter its dividend policy in the near future.

**You are required to determine what rate to use.**

**15 Mark**



3. The following estimates have been made in respect of the Capital structure of HomeOwners Ltd:

Source of Finance	Market Value (Nm)	Cost (%)
Equity	10.00	16
Preference	6.00	24
Debentures	4.00	36

**Required:**

- Determine the Weighted Average Cost of Capital (WACC).
- What are the assumptions underlying the use of WACC as determined above?

**15 Marks**

4. Easylife recently won a lottery and wants to invest his ₦40,000.00 winnings for a period of one year. He was considering two proposals both of which have discrete probability distributions of cash flow as listed below for the next year:

<u>Proposal A</u>		<u>Proposal B</u>	
Probability	Cash flow (₦)	Probability	Cash flow (₦)
0.1	3,000	0.1	2,000
0.2	3,500	0.25	3,000
0.4	4,000	0.3	4,000
0.2	4,500	0.25	5,000
0.1	5,000	0.1	6,000

His friend, a financial consultant, strongly recommended that Easylife should invest the ₦40,000 in treasury certificates recently issued by the Federal Government. The treasury certificate bears an interest of 10%. Easylife is uncertain about what course of action to take. He has therefore called on you to:

- Compute the expected value of the cash inflows, the standard deviations of the probability distribution and the coefficient of variation for the three proposals.
- Advise on which of the three proposals has the greatest degree of risk and why?

**15 Marks**

5. A. **Daily Need Ltd** has an offer of N50 Million loan from a bank at a concessionary cost of 15%. The following 5 profitable projects are available to the company with their respective constant cash flows during the lifespan of each project:

Project	Initial Outlays N'000	Annual Flows N'000	Life Span Years
A	10,000	6,500	2
B	15,000	7,000	3
C	12,000	5,000	4
D	20,000	6,000	5
E	25,000	7,200	5

You are required to advise **Daily Need Ltd** which of the projects should be undertaken if the projects are divisible.

- b. Compare and contrast NPV and IRR as Capital Budget Evaluation criteria

15 Marks

6. A. Distinguish clearly between Operating and Financial Leverage

**5 Marks**

- B. Compare and contrast the following sources of finance.

- Commercial Paper Vs Bankers' Acceptance;
- Trade Credit Vs Accruals;
- Franchising Vs Factoring;
- Venture Capital Vs Project Finance;
- Lease Vs Sale and Lease back.

10 Marks

15 Marks