



NATIONAL OPEN UNIVERSITY OF NIGERIA
Plot 91, Cadastral Zone, Nnamdi Azikiwe Express Way, Jabi-Abuja
Faculty of Management Sciences, Department of Financial Studies
JULY 2017 EXAMINATIONS

COURSE CODE: ACC 415

CREDIT UNIT: 3

COURSE TITLE: FINANCIAL MANAGEMENT

TIME ALLOWED: 2 $\frac{1}{2}$ hrs

Instructions: 1. Attempt question Number one (1) and any other three (3).

2. Question number 1 is compulsory and carries 25 marks, while the other questions carry 15 marks each

Present all points in a coherent and orderly manner

QUESTION 1

For an investment project, the following initial estimates have been made:

Initial outlay on equipment N100,000

Sales price N30

Unit cost N20

Discount rate 10% per annum

Life of project 3 years

Sales volume (units)

Year 1 4,000

Year 2 6,000

Year 3 3,000

The equipment will manufacture a product at the above-stated unit cost and selling price in the volumes indicated. Calculate the **NPV** and the maximum tolerable unfavourable changes as a percentage of the original estimated value in:

a) Sales price

b) Sales volume

c) Initial outlay.

25 Marks

QUESTION 2

Fuji software Inc. has the following mutually exclusive projects.

Year	Project A	Project B
0	-\$10,000	-\$12,000
1	\$6,500	\$7,000
2	\$4,000	\$4,000
3	\$1,800	\$5,000

2a) Calculate the payback period for the two projects and advice the company accordingly.

7 Marks

2b) Suppose Fuji uses the NPV to rank these two projects, which project should be chosen if the appropriate discount rate is 15%

8 Marks

QUESTION 3

3a) List and Explain properly 7 factors that influence working capital needs of firms. **15 Marks**

QUESTION 4

4a) What are the steps in strategic financial decision-making?

6 marks

4b) In resolving the issue of risk and uncertainty, various techniques are applied to analyse their effect on capital investment decisions. List some of the techniques applied.

QUESTION 5

5a) What are the approaches used to determine the mix of short-term and long-term sources in financing current assets of a firm

6 Marks

5b) List 9 qualitative factors to be considered in capital investment decisions

9 Marks

QUESTION 6

6a) List the factors to consider when raising finance through the issue of loan stock **6 Marks**

6b) What are the advantages of convertible loan stock to the company?

10 Marks