



**NATIONAL OPEN UNIVERSITY OF NIGERIA**  
**14/16, AHMADU BELLO WAY, VICTORIA ISLAND, LAGOS**  
**SCHOOL OF MANAGEMENT SCIENCES**  
**MARCH, 2014 EXAMINATIONS**

**Course Code: MBF 848**

**Credit Unit: 2.**

**Course Title: ADVANCED EVALUATION METHOD**

**Time Allowed: 2 Hours.**

**Instructions: 1. Attempt Question 1 and any other two (2) Questions.**

**2. Question 1 is compulsory and carries 30 marks while the other 2 Questions carry 20 marks each.**

**3. Present all your points in coherent and orderly manner.**

- 1. a. Discuss Financial Statements and the information they contain.**

**15 MARKS**

- b. Explain the term 'Asset Conversion Lending by banks'. 5 MARKS**

- c. List and explain the *structure* of the Asset Conversion Loan. 10 MARKS**

- 2. a. Explain the importance of the Discounted Cash Flow Criteria.**

**10 MARKS**

- b. A bakery project cost ₦2,000,000 to set up and generates cash inflow of ₦800,000, ₦900,000, ₦1,000,000 and ₦800,000 over a four year period. If the required rate of returns is 10%, calculate the Net Present Value (NPV) of the bakery project.**

**10 MARKS**

- 3a. What do you understand by the term 'Sinking Funds'?**

- b. Zuliatu is 25years old. How much should she invest each year so that by the age of 40, she would have the sum ₦100,000 in her savings account in the bank. The interest rate is 10% per annum and the compound value of annuity is 31.772.**

**7 MARKS**

- c. Master Olu is 8years old. In the next 10years, he will enroll at the University of Lagos to read medicine. His father intends to save ₦250,000**

for his University Education by investing in an industrial stock yielding 10% interest.

Given a sinking fund factor of 0.062745, how much should Olu's father invest annually so that he will be able to achieve the target savings for his son's education in the next 10years. **8 MARKS**

3. a. What do you understand by the term 'Weighted Average Cost of Capital' {WACC}? **6 MARKS**

b. Given the following Capital Structure of Zik's Furniture Company Ltd;  
*Calculate the WACC.*

Source of Finance	Amount(₦)	Proportion
Equity Share Capital	2,250,000	45%
Retained Earnings	750,000	15%
Preference Share Capital	500,000	10%
Debt Issues	<u>1,500,000</u>	<u>30%</u>
TOTAL	<u>5,000,000</u>	<u>100%</u>

The company's after-tax component cost of the various sources of finance are as follow:

Source of Finance	Cost
Equity Share Capital	45%
Retained Earnings	15%
Preference Share Capital	10%
Debt Issues	8%

**14 MARKS**

5. a. List the FOUR classifications of Accounting Ratios known to you.

**4 MARKS**

b. Discuss any *three* measures of liquidity of a firm; stating clearly the formula

for calculating each of them.

**8 MARKS**

- c. List three profitability ratios and discuss their computation. 8 MARKS**