



# **NATIONAL OPEN UNIVERSITY OF NIGERIA**

**Plot 91, Cadastral Zone, Nnamdi Azikiwe Express Way,**

**Faculty of Management Sciences**

**Department of Financial Studies,**

**Jabi-Abuja.**

**JULY 2017 Examinations**

**Course Code: MGS715**

**Course Title: Principles of Finance**

**Credit Unit: 2**

**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. The following figures are for Atiku Engineering Supplies Ltd as at 31 December, 2011

	<b>₦'000</b>	<b>₦'000</b>
Turn Over		160
Gross Profit		40
Average Inventory at Cost		10
Expenses		8
<b>Balance Sheet</b>		
Non Current Assets		108
<b>Current Assets</b>		
Inventory	10	
Account Receivables	8	
Bank	<u>2</u>	
		<u>20</u>
Total assets		128
Current Liabilities		10
		<u><b>118</b></u>
Capital		<u><b>118</b></u>

**a) You are required to calculate:**

- i) Gross profit as a percentage of sales
- ii) Inventory turnover
- iii) Net profit: Sales ratio
- iv) Net profit as a percentage of Capital Employed
- v) Current ratio
- vi) Quick Asset (Acid test)Ratio

**20 marks**

**b)** The following figures are another firm in the same line of business, Davidson Engineering Services Ltd, for the year ending 31 December, 2011.

**Davidson Engineering Services Ltd**

Gross Profit as a Percentage of sales	25%
Rate of inventory turnover	10
Net Profit as a percentage of sales	10%
Net Profit to total capital employed	12%
Current ratio	1:1
Quick asset (acid test) ratio	0.5:1

Compare your results in **(a)** with those given for Davidson Engineering Services Ltd. As a result of your comparison, say which you think was the more successful business during 2011, giving your reasons

**10 marks**

**2.a).** Discuss the short-term sources of finance.

**10 marks**

**b).** The nominal interest rate charged on bank overdraft is 9%.

Given a company tax rate of 40%, calculate the effective cost of the overdraft.

**10 marks**

**3.a).** State and explain the traditional functions of a Finance Manager

**10**

**marks**

**b).** What are the modern functions of the finance managers

**10**

**marks**

**4.** Mention and explain the various instruments that are offered for transactions in the money market?

**20**

**marks**

**5.** Discuss in detail the external sources of capital formation. **20 marks**