CRAWFORD UNIVERSITY
FAITH CITY, IGBESA

TITLE OF EXAMINATION: B.Sc EXAMINATIONS
DEPARTMENT: ACCOUNTING AND FINANCE
SESSION: 2023/24 **SEMESTER: HARMATTAN**
COURSE: FINANCIAL MANAGEMENT.
COURSE CODE: ACC 405 /FIN 403 **CREDIT: 3 UNITS**
TITLE OF EXAMINATION: B.Sc EXAMINATIONS
INSTRUCTIONS: (i) Attempt question one and any other two.
(ii) Time Allowed: 2 HOURS 15 MINUTES

QUESTION ONE

Demola Plc has the opportunity to undertake the two projects whose possible returns under different economic conditions are set out below:

State of economy	Probability	Internal Rate of Return	
		Project A	Project B
5% growth	0.3	12%	13%
25% growth	0.5	11%	15%
0% growth	0.2	10%	20%

Demola is debt-free and the project would be financed from retention. Ignore tax.
Required:

a. If only one project can be accepted, which would you recommend and why? 9mks
b. Further analysis reveals that Demola's Beta is 0.60, the risk free rate is 8 per cent and the risk premium on the market portfolio have averaged 8% in the past. What is the rate of return required by Demola on new project? 4mks
c. In view of your answer in (b), is project A worthwhile:
   i. In isolation? Why? 3mks
   ii. In conjunction with B? 4mks
   (find a portfolio which meets the required return standard)
   iii. What is the risk of the portfolio which you have constructed in (ii)? 6mks
d. What is the minimum risk portfolio and the resulting expected return and standard deviation of a portfolio consisting of A & B . 4mks
   Show all calculation

(30MARKS)

QUESTION TWO

The relevant data for two companies is as follows:

	Ojo Plc	Aina Plc
Current earnings	₦1,600,000	₦700,000

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Number of shares in issue	2,000,000	2,000,000
Proportion o earnings retained.	None	40%
Return on investment	N/A	25%
Required return on ordinary shares	15%	18%

Both dividends have just been paid.

Aina Plc wishes to take over Ojo Plc, it will retain the same dividend policy but the return earned on new investments will fall to 20% and the required rate of return of the ordinary share will be 16%.

Required:

i. Calculate the existing price of Ojo Plc and Aina Plc. 7mks
ii. Evaluate the maximum price which Aina Plc should pay for Ojo Plc. 4mks
iii. Calculate the number of shares issued to the shareholders of Ojo Plc if the takeover price is agreed at ₦11million. 4mks

(15MARKS)

QUESTION THREE

My Special Students Ltd manufactures chocolate products and sells through a number of wholesalers:

(i) The budgeted sales for the company for the eight months up to 31st December,2017 are as follows:

Month	**Sales.** ₦
May	1,200,000
June	1,400,000
July	600,000
August	800,000
September	900,000
October	1,600,000
November	2,000,000
December	1,800,000

(ii) Cash sales are generally about 10% of total sales; a further 60% of total sales are paid for within about 30 days and another 25% within 60 days; Bad debts tend to average at about 5% of sales.

(iii) The company purchases its raw materials at 65% of their final sales value. Purchases are made two months prior to sale and suppliers are paid one month after delivery.

(iv) Other expenses paid as incurred are expected to amount to ₦200,000 per month.

(v) The budgeted sales for January and February 2018 are ₦1,500,000 and ₦1,000,000 respectively.

(vi) At the end of June 2017, the cash overdraft balance is expected to be ₦100,000.

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Required: prepare a cash budget for Kings Ltd for the six months ending 31 December ,2017.

(15MARKS)

QUESTION FOUR

Ojubanire and Amarachi investments holds a portfolio of shares consists of holdings in the following companies.

Company	No of shares	Market value of shares	Annual returns /share
A	1500	3750	40K
B	2000	7500	52.5K
C	2500	4500	36K
D	4000	20000	60K
	10,000		

The market rate of return is 16% and the risk-free rate of return is 11%

Calculate:

i. The beta factor of each of the shares in the portfolio. 5mks

ii. The beta factor of the portfolio as a whole. 5mks

iii. The expected return of the portfolio as a whole. 5mks

(15MARKS)

QUESTION FIVE.

(a) What is financial planning? Explain the steps in financial planning. 8mks

(b) Describe the Dividend Yield method as a means of converting future cashflow into present value. 7mks

(15MARKS)

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