



ELIZADE UNIVERSITY, ILARA-MOKIN, ONDO STATE

FACULTY: HUMANITIES, SOCIAL & MANAGEMENT SCIENCES

DEPARTMENT: ACCOUNTING & FINANCE

FIRST SEMESTER EXAMINATIONS: 2020/2021 ACADEMIC SESSION

COURSE CODE: ACF 407

COURSE TITLE: ADVANCED FINANCIAL MANAGEMENT

DURATION: 2 Hours 30 minutes

INSTRUCTION: ANSWER QUESTION ONE (1) AND ANY OTHER THREE (3) QUESTIONS

QUESTION 1

- A. **Akeredolu Plc** maintains 3 working capital policies, ranging from conservative policy, average policy and aggressive policy. Sales under each policy include one million, six hundred thousand naira. Fixed asset value is taken to be 50% of sales in each policy. Current assets are 60% of sales under conservative policy, $\frac{1}{2}$ of sales under average policy and 40% of sales under the aggressive policy. Earnings before interest and tax under each policy take 20% of sales revenue.

Required

- (i) Determine the return on assets under each policy and comment on the liquidity position of each policy (3 marks).

- B. In a related development, the firm has decided to finance its total assets with 50% equity and 50% debt. The firm uses all long term debt under conservative policy; half long term debt and half short term debt under average policy and all short term debt under aggressive policy. Interest rate on both long term debt and short term debt attracts 8% respectively. The company pays income tax rate of 30%.

Required

- (i) Calculate the return on equity (ROE) and liquidity level of the firm under each of the working capital policy and comment on your result (6 marks)

- C. **OBIAKPOR Ltd.** is a fast growing trading firm. The summarized financial statements of the company for the current financial year ended and the prior year are as indicated as follows:

	Current year	previous year
	₦, 000,000	₦, 000,000
Revenue	2000	1500
Cost of goods sold	1200	750
Gross profit	800	750
Operating Expenses	775	626
Net profit	25	125

Summary of statement of financial position

	Current year	previous year
	₦, 000,000	₦, 000,000
Non- current Assets	1000	900
Current Assets:		
Inventory	300	150
Trade receivable	325	165
Cash	-	10
Total Assets	<u>1625</u>	<u>1225</u>
Equity and Liabilities		
Share capital	900	910
Retained Earnings	250	225
Current Liabilities		
Trade payable	225	100
Bank overdraft	<u>250</u>	<u>-</u>
	<u>1625</u>	<u>1225</u>

Required:

Critically undertake analysis of five symptoms of overtrading for **OBIAKPOR Ltd** .and comment on each.

(6 marks)

(Total =15 marks)

QUESTION 2

- A. What is breakeven point analysis? (1 mark)
 B. The following data were extracted from the financial statement of **Ogbeide Ltd** for the year ended 2020

	₦, 000
Sales	500
Cost of sales	420
Purchases	280
Raw materials	70
Work – in – progress	35
Finished goods stock	80
Debtors	60
Creditors	42

Required:

Determine the length of the cash operating cycle that is presently applicable to the company's operation for guidance to the management

(6 marks).

Hint: All sales and purchases are on credit.

- C. List 4 signs of overtrading in a business firm (2 marks)
 D. Define working capital (1 mark)
 E. List and explain three (3) determinants of working capital (3 marks)

- F. Explain the difference between overcapitalization and over trading in a business firm (1 mark)
- G. Ifedayo Limited total investment in working capital in the year 2020 was ₦134, 000,000 while the interest cost incurred in sourcing for the finance was put at 23%. What is the annual cost of working capital investment for Ifedayo Limited? (1 mark)

(Total =15 marks)

QUESTION 3

- A. Distinguish between dividend and dividend policy (2 marks)
- B. Define cash flow forecasting and state 2 its purposes in a business firm (2 marks)
- C. What is a cash budget? (2 marks)
- D. Cash Baby Plc sells fairly used clothes at opposite Eko bridge, Lagos state on wholesale basis on credit with the terms, 10% cash, 50% in the month following and the balance in the next two month. The projected credit sales for the first 6 months of the year 2020 are as follows:
- | | |
|----------|------|
| ₦20, 000 | Jan |
| ₦40, 000 | Feb |
| ₦30, 000 | Mar |
| ₦25, 000 | Apr |
| ₦50, 000 | May |
| ₦10, 000 | June |

The purchases are on the following terms: 10% is paid in advance, 20% in the month of purchase and the balance in the month after purchase. The expected credit purchases are:

Months	₦
Jan	10,000
Feb	20,000
Mar	15,000
Apr	18,000
May	25,000
June	15,000

Cash Baby plc pays rent of ₦5000 per monthly and he is expecting dividend from his investment in Blue cheap ltd of ₦8000 in March. He intends to purchase motor vehicle of ₦15000 in May by selling his own beetle vehicle in April for ₦5000. Sales men are given commission of 10% of sales one month in arrears. The opening cash balance as at Jan. 12,000 is ₦100, 000.

Require: Prepare the cash budget for the period of January to June 2020 (6 marks)

- E. What is free cash flow? (3 marks)

(Total = 15 marks)

QUESTION 4

- A. Distinguish dividend irrelevance theory from dividend relevance theory (2 marks)
- B. Write short note on the following theories:
- Residual dividend theory (2 marks)
 - Tax preference theory (2 marks)
 - Bird-in- hand theory (2 marks)
 - List two impacts of dividend payments by firms (1 mark)
- C. The information below relates to three distinct firms, classified as growing firm, normal firm and declining firm.

Growing firm	Normal firm	Declining firm
$r = 0.18$	$r = 0.16$	$r = 0.13$
$k = 0.12$	$k = 0.12$	$k = 0.12$
EPS = ₦15	EPS = ₦15	EPS = ₦15
Payout ratio 40%	40%	40%
Payout ratio 60%	60%	60%

You are required to determine the effect of the different dividend policies on the market value of the firms, using Myron Gordon's model (6 marks).

(Total = 15 marks)

QUESTION 5

- A. List and explain any three determinants of dividend policy known to you (3 marks)
- B. **Wazobia Enterprise** specializes in the production of kids shoes. The data below relate to the production of some pair of kids shoes in the month of June, 2020.

Variable cost per unit = ₦20

Selling price per unit = ₦45

Fixed cost = ₦140, 000

You are required to determine:

- The number of units of the kids' shoes required to be produced in order to breakeven (2 marks)
 - The sales revenue required to breakeven (2 marks).
 - The contribution to sales ratio (2 marks).
 - The units to be sold to make a target profit of ₦40, 000 (2 marks).
 - The sales revenue needed to make a target profit of ₦40, 000 (2 marks).
 - Units required in order to making a profit after tax of ₦30, 000. Tax rate is 30% (2 marks).
- (Total = 15 marks)