ELIZADE UNIVERSITY, ILARA-MOKIN, ONDO STATE

ELIZADE UNIVERSITY
ILARA MOKIN
PRAGMATIC INNOVATION FOR DEVELOPMENT

FACULTY: HUMANITY & MANAGEMENT SCIENCES
DEPARTMENT: ACCOUNTING & FINANCE
SECOND SEMESTER EXAMINATIONS
2013 / 2014 ACADEMIC SESSION

COURSE CODE: ACC 206

COURSE TITLE: PRINCIPLE OF FINANCIAL MANAGEMENT II

DURATION: 2 HOURS

HOD's SIGNATURE 1/7/14

INSTRUCTION: INSTRUCTION: Answer Question 1 or 2; and any other three (3) questions.

1. A young lecturer having the following cash flow with his investment proposal as shown below

Year	0	1	2	3	4	5
Cash flow	100,000	30,000	20,000	15,000	30,000	70,000

Given the cost of capital as 12.5%

Required

Calculate the IRR of the project

2. Yaab Ltd is considering a capital investment where the estimated cash flows are as follows:

Year	0	1	2	3	4
Cash flow	100,000	60,000	30,000	40,000	30,000

The company's cost of capital is 15%.

What is the NPV of the project and should it be undertaken?

3. Adebayo wishes to raise new capital new capital to reorganize his company which is undergoing serious financial problems. Additional #20 million in addition to its present all equity capital of #40 million valued at #40.00 per share is being contemplated. He is undecided between raising all the new capital with 11% bond and selling of stock at the prevailing prices. A corporate tax rate of 50% up to EBIT is being proposed. How profitable is this venture to the stock holders if the company finances the expected expansion and reorganization with the contemplated equity.

4. Westerfried supermarket sells complete men suits for #10,000 each. Variable cost of the suit is estimated to be #8000 and annual sales of 5000 suits while average costs remain #7000. Mr. Adebayo is contemplating relaxing the credit policy which will increase sales to 6500 suites, but also increase the average collection period from one to two months. If Adebayo's return on equal risk investment is 20%. Should the policy be relaxed? Show necessary workings.

5. Which of the following credit terms should a company find most desirable if the company is not able to take advantage of available cash discounts. Give appropriate reasons

(i) 1/5, Net 20 (ii) 2/10, Net 40, (iii) 3/5, Net 25 (iv) 2/10, Net 30.

6. The management of a company's current assets essentially involves balancing profitability and Risk /Cost. Do you agree? How true is this statement? Discuss fully.