LAGOS CITY POLYTECHNIC, IKEJA

SCHOOL OF MANAGEMENT AND BUSINESS STUDIES

DEPARTMENT OF ACCOUNTANCY

2016/2017 SEMESTER EXAMINATION

COURSE TITLE: FINANCIAL MANAGEMENT NO OF QUESTION: 5
COURSE CODE: ACC 413 TIME: ALLOWED: 3HRS

FOR WHOM: HND YR I BS, HND YR II AC PT INSTRUCTIONS: Answer any 4 Questions

1. (a) What do you understand by dividend policy and what are the factors affecting dividend policy.

(b) Explain the following points in support of Dividend Supremacy Theory:
(i) Certainty Argument
(ii) Clietele Argument
(iii) Taxation Argument
(iv) Asymmetric Information
(v) Signalling properties of Dividends

2. Goose Nigeria Plc manufactures product X which it sells for N5 a unit. Variable costs of production are currently N3 a unit, and fixed cost 50k a unit.A new machine is available which would cost N90,000 but which could be used to make product X for a variable cost of only N2.50 a unit. Fixed costs, however, would increase by N7,500 a year as a direct result of purchasing the machine. The machine would have a expected life of four years and a resale of product X are estimated to be 7,500 units a year. If Goose Nigeria Plc expects to earn at least 12% a year from its investments, should the machine be purchased? Ignore Taxation.

3. Pedro Plc and Bariga Plc are two companies in the same line of business, with the same level of risk and having the same profit before interest. Pedro Plc is entirely equity financed with 2,000,00025k ordinary shares currently quoted at N1.20-ex-div.

Bariga Plc is geared company with 1,250,000 25k ordinary shares with market value of N1.00-ex-div and N1,500,000 of 10% irredeemable loan stock currently quoted at par. Both companies generate an annual profit before interest of N360,000; all profit after interest is distributed as a dividend. Mr. Shomolu owns 62,500 shares in Bariga Plc. A friend, Mr. Tinubu has recommended he sells these, borrows sufficient fund at a rate of 10% and to use the proceeds to buy ordinary shares in pedro plc.

You are required to:
(a) Calculate the cost of equity and weighted average cost of capital of each company.

(b) Advise Mr. Shomolu as whether his proposed transaction is worthwhile both from the point of view of increased income and considering the level of associated uncertainty.

4. (a) What are the features of Small Scale Industries (SSI)

(b) What are the problems of small scale industries.

(c) What are the sources of finance for small and medium scale business.

5. Ajileye Nigeria Ltd is a new manufacturing company that is to engage in the production of Shoe soles and leather works.

The companys budget for its first year of operation is as shown below:

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