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27/1/2020

REDEEMER'S UNIVERSITY

PMB 230, EDE, OSUN STATE



COLLEGE OF Management Sciences
DEPARTMENT OF Accounting
COURSE CODE /TITLE ACC 407 / Financial Management 1 (2 Units)
First SEMESTER EXAMINATIONS
2019/2020 SESSION
INSTRUCTIONS ON CHOICE OF QUESTIONS TO BE ANSWERED
Attempt Question 1 and any other 2 questions
TIME ALLOWED 2 00 hours

QUESTION 1

OKP Investment Plc has 8,000,000 authorize share capital out of which a total of 4,000,000 (Four Million) shares were offered for sale by tender on its first issue. It was decided at the AGM that the balance would be issued whenever the company has viable projects to finance. The company has twin objectives as follows: (i) To raise a maximum amount of money from the tender offer for the execution of selected projects with positive NPV. (ii) To have at least 3000 shareholders. The tenders received are as follows:

Price tendered per share (=N=)	No of shares applied for at this price	No of applicants at this price
30	800,000	500
22	950,000	910
19	2,300,000	1,700
10	2,400,000	1,800
05	2,600,000	2,000

Note the following information:

- Each applicant made only one offer except 100 applicants with 50,000 share applications. These multiple applications were rejected, and the shares canceled were included in the above table. The problem occurred at the tender price of 22 per share.
- The Finance Manager advised the company to invest the total amount generated from the issue of shares in a viable project already evaluated. The present value of the project is equal to 130% of the net amount invested. The project can be undertaking from any level of the initial investment.
- The cost of the tender charged by Omofa Investment Bank Limited includes a fixed handling cost of =N=10,000,000 plus a 10% commission on the gross amount raised in excess of =N=18,000,000. The sub-agents commission 10%. Omofa Investment Bank Limited responsibility.
- Ikatika Unit Trust Company Limited applied for 3,000,000 shares at a price of =N=10 per share. Based on that speculations, a Cheque of =N=30,000,000 was made and dispatched to Omofa Investment Bank Limited. However, it was agreed to issue Ikatika Unit Trust with 1 for every 5 shares applied to avoid concentrating control in the hands of few investors.

You are required to:

- Calculate the number of applicants and the shares applied for at the price of 22 p/share after the rejected application. (2 Marks)
 - Show the amount of funds generated at various prices from the tender offer, using the appropriate table (10 Marks)
 - Indicate the sticking price and total gross funds raised with respect to the issue objectives (2 Marks)
 - Prepare a statement of account of Ikatika Unit Trust Company Limited based on the number of shares allotted to them. It should be stated clearly whether or not there is refund or extra payment (4 Marks)
 - Calculate the net fund if the issuing charges were: First, paid directly from the share proceeds and secondly, paid after the execution of the project. Advise management as appropriate with reason. (4 Marks)
 - Compute the company market value per share if the market fully reflects all the above information. (2 Marks)
- (Total =24 Marks)

QUESTION 2

Faith and Work Limited, in accordance with its memorandum of the association decided to manufacture a new "Shower-cap" due to its high demand by girls of Redeemers University. This product is complementary to the existing "Rubber-sander," which has been in the Ede market for more than ten years. The sum of =N=15,000,000 (Fifteen Million Naira Only) was committed to the purchase of the modern Plant and Machinery for the production. An extra =N=10,000,000 (Ten Million Naira Only) was also needed as working capital in year 1. The project will generate the following income stream: In year 1 and 2, the cash inflows are equal to 90% and 80% respectively of the investment in year 0.

Required:

- (i) Calculate the Internal Rate of Return (IRR) if a lower discount rate is 21% and the higher is 45% (16 Marks)
 - (ii) Assuming the fixed deposit interest is 22% should this project be initiated? (2 marks)
- (Total 18 marks)**

QUESTION 3

- (a) State and explain three methods by which a Public Limited liability company issue its shares to the public (6 marks)
 - (b) What a DEBENTURE and how would a fixed debenture deed affect its holder under inflation (6 Marks)
 - (c) Describe the term "ISSUE OF SHARE BY TENDER" and give reasons why it's the preferred method by new public limited liability companies on their first issue. (6 marks)
- (Total 18 marks)**

QUESTION 4

Miss Blessing decided to financed her Canteen operation with a loan of =N=3,000,000 from Abosede Finance Limited on the following terms: Tenor: 12 years, Interest rate: 10% per annum, and Repayment: 12 equal installments payable at the end of each year. Miss Blessing later decided to cut down the planned operation and actual financial need was reduced by =N=1,200,000. In January of the 3rd year, Miss Blessing got married to Mr. Charles, a wealthy tycoon from Ife. The decision now is to pay off the outstanding loan in the next 3 years instead of the remaining 12 years agreed. Based on the new agreement by both parties, the interest rate was reduced to 5% as a rebate to encourage prompt payment of the loan.

Required:

- (i) Compute the amount of each installment on the first and second arrangements using the appropriate formula. (14 marks)
 - (ii) What compound rate of interest will be required to produce =N=600,000 after 5 years with an initial investment of =N=500,000? (4 Marks)
- (Total 18 marks)**

QUESTION 5

- (a) Mention six factors to be considered when choosing appropriate source of finance that would be used to finance a fairly long term project.? (6 Marks)
 - (b) As the Finance Manager of OBJ Plc, present a report for the consideration of the Managing Director to enable him to determine dividend to be declare and the patten of payment. (12 Marks)
- (Total 18 marks)**