



**LEAD CITY UNIVERSITY, IBADAN**  
**Faculty of Environmental, Social and Management Sciences**  
**Department of Accounting and Finance**  
**2017/2018 Academic Session (2<sup>nd</sup> Semester)**

**COURSE PARTICULARS**

**Course Code:** ACC 312

**Course Title:** Financial Management

**No. of Units:** 3

**Status:** Compulsory

**LECTURERS DETAILS**

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**Areas of Specialization:** Accounting, Finance and Management

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**Areas of Specialization:** Accounting, Taxation and Finance

**COURSE DESCRIPTION:**

This is a 3-unit compulsory course comprising the following contents: Finance functions, Dividend Policy and Internal Financing, Portfolio Theory and Management, Efficient Market Hypothesis, Securities' Valuation, Risk and Diversification, Capital Asset Pricing Model, Foreign Currency Transactions, Analysis and Interpretation of Financial Statements and Reports, Business Failure, Capital Reconstruction, Merger and Acquisitions.

**COURSE OBJECTIVE:**

The emphasis in this course will be to broaden previous knowledge of finance and specifically deal with the fundamental principles and objectives of Corporate Financial Management.

## **ASSESSMENT:**

- Class Attendance/Assignments 10%
- Test/Term Papers (2) 30%
- Final Examination 60%
- Total Mark 100%

## **LECTURE PLAN:**

### **Weeks 1-4:**

- \* Finance Function
- \* Functions of Finance Manager
- \* Dividend Policy & Internal Financing  
-Theory, Models & Applications
- \* Assignment/Revision/Term Paper 1

### **Weeks 5-7:**

- \* Portfolio Theory & Management
- \* Efficient Market Hypothesis (EMH)
- \* Securities Valuation
- \* Capital Assets Pricing Model, etc
- \* Theory of Capital Structure and Cost of Capital
- \* Capital Budgeting and Appraisal Techniques
- \* Futures, Options and Derivatives
- \* Assignment/Revision

### **Weeks 8-9:**

- \* Risk & Diversification
- \* Foreign Currency Transactions

**Weeks 10-11:**

- \* Analysis & Interpretation of Financing Statements and Reports
- \* Business Failure
- \* Reconstruction, Merger and Acquisitions

**Week 12:**

- \* Revision/Test/Term Paper 2

**READING LIST:**

1. Ross Stephen, Westerfield, Radolph and Jaffe, Jeffrey, (2010): Corporate Finance, 9<sup>th</sup> Edition, McGraw Hill, Irwin.
2. Douglas R. Emery, John D. Finnerty & John D. Stowe (2007): Corporate Financial Management, 3rd Edition, Pearson Educ. Inc., New Jersey, USA.
3. Akinsulire, Oye (2006): Financial Management, 4th Edition, Ceemol (Nig) Ltd, Lagos.
4. Pandey, I.M. (2005): Financial Management; 9th Edition, Vikas Publishing House PVT Ltd, New Delhi.
5. Glen Arnold (2005): Corporate Financial Management, 3<sup>rd</sup> Edition Pearson Educational Ltd., UK.
6. Cox D & Fardon M. (2003): Management of Finance, Osborne Books,
7. Keown, A.J., Martin, J.D., Petty, J.W and Scott D.P. (Jnr) (2000): Foundations of Finance – The Logic & Practice of Financial management, 3<sup>rd</sup> Edition, Prentice-Hall Inc., New Jersey, USA
8. Shim, J.K and Siegel, J.G (1998): Financial Management, McGraw Hill, New York.
9. Olowe, R.A. (1997): Financial Management, Concepts, Analysis & Capital Investments, Briefly Series, Lagos.

10. Egwuouwu R. (1995): Corporate Financial Risk Exposure, Management Strides Associates, Lagos.
11. Brockington, R.B. (1984): Financial Management, 3rd Edition, DP Publications, Hants UK.
12. Journals of relevant Professional bodies (such as ICAN, CNIM, CIBN, ANAN etc).
13. Business Newspapers/Journals (local and foreign).

### TUTORIAL QUESTIONS

- 1) a) What do you understand by “Financial Management?”  
 b) Briefly examine the scope and relevance of Financial Management.  
 c) Identify and explain the three (3) broad decision areas of Financial Management.
- 2) Aminu Lawal recently convinced his friends and relations to grant him a loan of ₦200,000 which he intend to invest in a farming project. He estimates that the project will yield the following returns annually for the next five years.

Year	₦
1	60,000
2	60,000
3	80,000
4	60,000
5	40,000

There was no scrap value at the end of the fifth year.

- (a) Calculate the Accounting Rate of Return of this project
  - (b) Calculate the discounting payback period of the project.
  - (c) Calculate the Net Present Value (NPV)
  - (d) Calculate the Internal Rate of Return (IRR), if the cost of capital is 10% per annum.
- 3)a) Cost of Capital computation is based on certain assumptions. Discuss.  
 b) Explain briefly the computation of specific costs of the various sources of capital.
  - 4) Write short **Notes** on the following:
    - i) Foreign Exchange ii) Portfolio iii) Merger iv) Finance functions v) Dividend Policy

5) Discuss on various reasons why businesses fail (i.e close down after persistent losses).

6)a) What is Risk? And, how is it measured?

b) Discuss the factors that should be taken into account when determining a discount rate to apply to cash flow from international investments and comment on whether the type and cost of borrowing should affect the investment decision.

7) A portfolio consists of three securities C, M, and S with the following parameters.

	C	M	S
Expected Return (%)	25	22	20
Standard Deviation (%)	30	26	24
Portfolio weight (%)	40	20	40

You are required to calculate return and risk of the portfolio.

8) Distinguish between the following pairs:

- i) Short-Term Funds and Short-Term Debts
- ii) Money Cash Flows and Real Cash Flows
- iii) Operating and Financial Leverages
- iv) Debt and Equity Capital
- v) Dividend and Interest

9)a) In appraising foreign investments more complexities are usually encountered than in evaluating domestic projects. State SIX of these complexities.

b) In the conduct of cross-border transactions, the management of an international firm faces a number of financial market risks, which are inherent in the clearance and settlement of cross border financial transactions. Describe briefly SIX of such risks and proffer TWO ways of mitigating them.

10) Discuss the major functions of a Finance Manager in today's business world.

**11)** Mercy Aina Limited has a capital budget of 1,000,000 for the year to 30<sup>th</sup> June, 2017. The available projects have been identified and quantified by the Technical Director and the Works Manager as listed below.

<b>Projects</b>	<b>Initial Outlay</b>	<b>Profitability Index</b>
	<b>₦</b>	<b>₦</b>
<b>A</b>	500,000	1.10
<b>B</b>	200,000	0.95
<b>C</b>	400,000	1.25
<b>D</b>	400,000	1.23
<b>E</b>	500,000	1.05
<b>F</b>	200,000	1.20
<b>I</b>	100,000	0.99

**Determine:**

- a)** Which projects should the company invest in?
- b)** What difference would the absence of capital rationing make to your selection in (a) above?

**12)a)** “Financial Statements can be interpreted in various way” Discuss.

**b)i)** State FIVE (5) uses of Ratio Analysis. **ii)** State FIVE (5) limitations of Ratio Analysis.

## MARKING GUIDE:

**Notes:**(i). Students will be required to answer any four (4) from chosen six (6) questions.

(ii). Each question carries maximum mark of 15, while total mark for this paper is 60.

(iii). Where a question has several parts (i.e i, ii, .... or (a), (b)), respective marks are shown against each part of the solution.

(iv). In a situation, where a student attempts a question, different from the chosen six (6), no mark will be awarded, likewise no mark for extra question above the required four (4).

## QUESTIONS:

1. This is a direct question, based on the core area of the Course. Students are expected to discuss on the concept/scope of Financial Management. The following are marks allocated:

a) 2.5 marks

b) 5 marks

c) 7.5 marks @ 2.5 each

**Total Mark = 15**

2. This question is based on Capital budgeting Analysis. Students' knowledge is tested in various approaches, such as Payback Period, Accounting Rate of Return, NPV and IRR. The following marks are allocated to the parts:

a) ARR-3 mks

b) Discounted PBP-3.5 mks

c) NPV-4 mks

d) IRR-4.5 mks

**Total Mark = 15**

3. This question tests students' understanding of Cost of Capital, and the ability to compute the various costs of various sources of capital, using appropriate formulae. The following marks are allocated:

a) 5 marks

b) 10 marks @ 2.5 marks each (i.e Costs of Equity, Debt, Preference Shares, and Retained Earnings)

**Total Mark=15**

4. This is a direct question based on several aspect of the course. Students are expected to write brief notes on for which 3 marks each will be earned.

**Total Mark = 15**

5. This is also a direct question. Students are expected to list and discuss on the various reasons why businesses fail. Six (6) reasons with explanations will suffice to earn the maximum mark allocated. Each listing/explanation attracts maximum mark of 2.5. While listing only attracts just ½ mark each.

**Total Mark = 15**

6. This is a technical question that tests also students' understanding of international investment and risk/its measurement. The following marks are allocated:

a)i) 2 marks      ii) 2 marks      b)i) 8 marks      ii) 3 marks

**Total Mark= 15**

7. This question tests students' knowledge of Portfolio Theory and CAPM. The following marks are allocated for correct answers with relevant workings:

a) Expected Rates of Returns of the Portfolio: i.e  $E(R_p)$ -7 marks

b) Expected Risks of the Portfolio: i.e  $\sigma_p$ -8 marks

**Total Mark = 15**

8. This is a direct question, and all parts carry equal marks of 3. It will not suffice to give just definition of, or explanation on each term, but the differences between the pairs should also be highlighted using up to three points each.

**Total Mark = 15**

9. Part „a“ of this question tests students' knowledge of the problems associated with the appraisal of foreign investments. While the part „b“ tests their understanding of international financial markets and their associated risks. The following marks will be earned:

a) 5 marks @1 mk each      b)i) 7.5 marks @ 1.5 marks each      ii) 2.5 marks

**Total Mark = 15**

10. This is a direct question that tests students' knowledge of the various functions of a Finance Manager. Students are expected to discuss briefly on ANY Seven (7) functions for which 2-2.5 marks each will be earned.

**Total Mark = 15**

11. This question is also based on Capital budgeting/Rationing Analysis, using the Profitability Index approach. The following are allocated marks:

a) 12.5 mks      b) 2.5 mks

**Total Mark = 15**

12. This question is based on the Analysis and Interpretation of Financial Statements and Reports. The following marks are allocated:

a) 5 marks      b)i) Any Five (5) Uses of Ratio Analysis @ 1 mark each

ii) Any Five (5) Limitations of Ratio Analysis @ 1 mark each

**Total Mark = 15**