ICLED BUSINESS SCHOOL

FINANCIAL MANAGEMENT EXAMINATION

2025/2026 Session

Answer any 4 questions

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Question 1

a. Describe capital rationing and indicate ways it may arise. Explain the extent to which:
i. Project selection techniques, and
ii. The discount rate
Require modification under conditions of capital rationing.

Comment on the practical and theoretical merits and demerits of and limitations of;

i. Ranking by rate of return, and
ii. Linear programming

When selecting projects under conditions of capital rationing.

Question 2

One of the most difficult task facing the financial manager when considering budgeting proposals is to make an allowance for inflation.

Question 3

The financial manager in his day to day decisions must take into consideration the impact of inflation. However, for long term decisions, such as the appraisals of capital projects, he can ignore this because in the long run an average inflation rate applied to all variables will produce the same answer as if inflation had been ignored.

Comment on the above statement.

Question 4

Comment on the desirability of using a bank overdraft instead of a long term debt to finance investments projects.

Question 5

Penny Ltd has a share capital of 200,000 ordinary 50p shares with a market value of N3.60 per share cum div. A dividend of N120,000 is about to be paid, and it is expected that dividends will remain at the current level indefinitely.

The project would be financed in one of the following ways:

a. A rights issue of new share for every four held at N1.60 per share; the new shares would rank for dividend one year after issue
b. A reduction of N80,000 10% debentures
c. A public issue of ordinary shares; the new shares would rank for dividend one year after issue.

You are required to:

a) Estimate the new market value per ordinary shares, ex div:
   i. If the project is accepted and financed by the reduction in current dividend;
   ii. If the project is accepted and financed by the issue of debentures. In this case it is expected that shareholders will require an extra 1% return to compensate them for increased risk perceived.

b) Calculate the number of shares to be issued under option (d) and the price at which they should be issued ,if the total benefit from the project is to go to existing shareholders.
c) Calculate the total gain made by present shareholders under each of the four finance options.
d) Discuss the relative merits of each of the three sources of equity finance in practice.

Ignore issue costs of new shares and taxation for (a),(b),(C) **but not** (d)

QUESTION 6

You are required to:

a) Make a comparison between state-owned corporations and large industrial or commercial companies, under the headings:
i. Form of ownership
ii. Scale and nature of operations;
iii. Nature of objectives
b) Discuss the impact of these differences on a state-owned corporation's needs for funds and its sources and forms of financing;
c) Comment on possible ways in which the State might exercise financial control over state-owned corporations.

Question 7

Discuss the usefulness of expected NPV as a Criterion for making Investment decision under uncertainty .Include in your answer a brief discussion of the alternative methods of dealing with risk and uncertainty.