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BFN 427: Strategic Fin. Management

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Question 1:

a. Define Strategic Financial Management in the context of modern finance theory and explain its scope in details. (5 marks)

b. In recent times, the survival of a modern business unit depends on its web presence briefly enumerate relevant terminologies in ICT which should be of interest to the finance manager (7 ½ marks)

c. The crisis in the Nigerian banking sector today among other things is blamed on issues surrounding weakness in corporate governance in the banks affected. Suggest measures to be taken by banks to embrace good corporate governance (5 marks).

Question 2

a. The risk of exchange rate fluctuations has a very large impact on the performance of banks and the economy. Discuss the factors affecting the fluctuations in the exchange rate (8 marks)

b. The fluctuation of foreign exchange can pose threat to the business transaction of a company. How can a Nigerian company hedge against foreign currency risk? (8 marks)

c. Differentiate between fixed exchange rate and floating exchange rate (1.5 marks)

Question 3

a. Despite huge capital fund reserve for MSMEs as announced by the President recently, MSMEs still face serious financial shortage. Enumerate the challenges of financing MSMEs in Nigeria. Suggest alternative measures for effective management of SME funds (7 ½ marks).

b. Explain the concepts and processes of public and private placements. What are the disadvantages to being public? Relate some of your discussions to the Nigerian environment in terms of how the price of a new security issue is determined. (5 marks)

c. Recent CBN reports on microfinance banks showed that many of the banks are high on portfolio risk. What are the reasons for this? What can the regulatory authorities do to ensure effective management of microfinance banks in Nigeria (5 marks).
Question 4:
(a) Assume that the Japanese government relaxes its controls on imports by Japanese companies. Other things being equal, how should this affect the (a) U.S. demand for Japanese yen, (b) supply of yen for sale, and (c) equilibrium value of the yen? (11 ½ marks).

(b) What is the expected relationship between the relative real interest rates of two countries and the exchange rate of their currencies? (6 marks).

Question 5:
a. The pure traditional school to capital structure developed a defense of the net income approach to the effect of leverage on the weighted average cost of capital and the value of the firm. With the aid of a graph discuss the views of the school of thought, highlighting their contribution to capital structure theory (6 marks).

b. Alpha Plc and Beta Plc are two companies in the same line of business, with the same level of risk and having the same the same profit profit before interest. Alpha Plc is entirely equity finance with 2,000,000 25k ordinary shares currently quoted at N1.20k ex div. Beta plc is a geared company with 1,250,000 25k ordinary shares with market value of N1 ex div and N1,500,000 of 10% irredeemable loan stock currently quoted at per. Both companies generate an annual profit before interest of N360,000; all profit after interest is distributed as a dividend. Obi own 62,500 shares in Beta Plc. A friend Isaac has recommended he sells these shares borrow sufficient fund at a rate of 10% and use the proceeds to buy ordinary shares in Alpha Plc (11 ½).

Required:
(a) Calculate the cost of equity and weighted average cost of capital for each company.
(b) Advice Obi on whether his proposed transaction is worthwhile both from the point of view of increased income and considering the level of associated risk.

Question 6:
a. Define Capital Reduction in your understanding. (3 mark)
b. what are the general principles to adopt when preparing a capital reduction scheme? (4marks)
c. Fame Foundation Plc has suffered many years of losses and its most recent balance sheet is as follows:

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ordinary Shares of N1</td>
<td>4,000,000</td>
<td>6,500,000</td>
</tr>
<tr>
<td>10% Preference shares</td>
<td>1,500,000</td>
<td>2,000,000</td>
</tr>
<tr>
<td>15% Debenture (unsecured)</td>
<td>2,000,000</td>
<td>1,000,000</td>
</tr>
<tr>
<td>Trade Creditors</td>
<td>2,000,000</td>
<td>Accumulated loses</td>
</tr>
<tr>
<td>Bank overdraft</td>
<td>1,500,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>11,000,000</strong></td>
<td><strong>11,000,000</strong></td>
</tr>
</tbody>
</table>
The bank overdraft is secured against the fixed assets. In the event of a forced sale the assets would probably raise the following amounts.

<table>
<thead>
<tr>
<th></th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed assets</td>
<td>3,000,000</td>
</tr>
<tr>
<td>Stock</td>
<td>800,000</td>
</tr>
<tr>
<td>Debtors</td>
<td>700,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>4,500,000</strong></td>
</tr>
</tbody>
</table>

However, the company has now reached a break-even position on current trading, before charging debenture interest, and is developing a new product which is expected to generate profits of N800,000 per annum in return for an immediate capital injection of N4,000,000. The directors are therefore proposing a capital reorganization of the company on the following basis.

a. Ordinary share capital to be written to 400,000 shares of N1 each.
b. Preference share capital to be converted into N300,000 ordinary share capital.
c. N1,300,000 debentures to be converted into ordinary shares, the remainder to be converted into N700,000 10% Debentures.
d. Trade creditors to accept a moratorium of six months in payment of amounts currently due. New supplies will be paid for on delivery.
e. A two for one rights issue will be made at a price of N1 per share.
f. Fixed assets are to be revalued at N4, 500,000, stock at N1,200,000 and debtors at N900,000. The accumulated losses are to be written off.

**Question 7:**

a. Five years ago Secured Home Plc invested N12,000,000 in the production of bullet proof doors. However, demand was much lower than market research had suggested and the company experienced considerable losses on its investment, leading to a debit balance on the revenue reserves. Bullet proof door production has now ceased, but the project harmed the company’s reputation leading to a reduction in sales of other types of doors. The company hopes to improve its profitability and reputation by producing a new electronic door which automatically open and close using owner vocal sound. The ‘electronic door would require new investment in plant totaling N50 million. Members of the board have suggested a reconstruction of the company. The following is the balance sheet of the company and proposed reconstruction.

<table>
<thead>
<tr>
<th>Secured Home Plc as at 31 December 2011</th>
<th>N,000</th>
<th>N,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ordinary shares of N1</td>
<td>200,000</td>
<td>Goodwill</td>
</tr>
<tr>
<td>10% Preference Shares of N1</td>
<td>40,000</td>
<td>Property</td>
</tr>
<tr>
<td>14% Unsecured debenture</td>
<td>200,000</td>
<td>Plant</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Accumulated losses</td>
</tr>
<tr>
<td></td>
<td>440,000</td>
<td>520,000</td>
</tr>
<tr>
<td>----------------</td>
<td>---------</td>
<td>---------</td>
</tr>
<tr>
<td>Trade Creditors</td>
<td>120,000</td>
<td></td>
</tr>
<tr>
<td>Bank overdraft (Unsecured)</td>
<td>140,000 260,000</td>
<td>Debtors 80,000 180,000</td>
</tr>
<tr>
<td></td>
<td>700,000</td>
<td>700,000</td>
</tr>
</tbody>
</table>

It is believed that the assets would realize the following amounts in the event of a forced sale.

\[
\begin{array}{|c|c|}
\hline
\text{N'000} & \text{N'000} \\
\hline
\text{Goodwill} & - \\
\text{Property} & 70,000 \\
\text{Plant} & 50,000 \\
\text{Stock} & 60,000 \\
\text{Debtors} & 60,000 \\
\hline
\text{Total} & 240,000 \\
\hline
\end{array}
\]

The directors of the company feel that trading is about to improve and that if a reconstruction were to be agreed with all interested parties the company would reach a break-even point with an injection of N50 million in plant. It also has a new project which would generate a return of N55m per annum before interest charge.

The following proposals are therefore made.

a. Goodwill should be written off.

b. Property and plant are to be written down by 40%

c. Debtors are to be written down by 10%

d. Both ordinary and preference shares capital are to be written down by 90% and the remaining preference share are to be converted to ordinary shares.

e. Accumulated losses are to be written off.

f. Trade creditors are to be written down by 50%

g. Debentures are to be written down by 50% and 40m new ordinary shares will be issued to the debenture holders to compensate them.

h. A right issue of 1 for 2 at par is to be made on the share capital after the above adjustments have been made.

i. The bank overdraft is to be increased by N18m on which interest will be charged at 18%.

j. N50m is to be invested in additional plant and machinery.

**Required**
a. Prepare a balance sheet of the company after completion of the reconstruction. (5 marks)
b. Prepare the position of the creditors in an immediate liquidation where there is no secured creditor and no liquidation expenses. (2 ½ marks)
c. Explain whether the reconstruction is in the best interest of
   i. Ordinary shareholder
   ii. Preference share holder
   iii. Debenture holder
   iv. Trade creditors
   v. Bank (10 marks)

Question 8:
   a. Explain the concept of Corporate Governance highlighting those issues it is expected to incorporate according to Professor Otokiti article in Lagos organization review, 2008. (7 marks)
   b. Explain five reasons why Corporate Governance is a major concern in Nigeria (5 marks)
   c. Enumerate five areas of disclosure and transparency in Corporate Governance Legislation in Nigeria. (5 Marks)

Question 9:
   (a) Briefly explain what you understand by International Finance and International Banking System. Please give 2 practical examples.
   (b) Briefly explain the available methods of international transactions and payment systems?

Question 10
   a. Briefly describe the Nigeria business environment, highlighting the component of the external and internal environment. (7 marks).
   b. Explain the following terms in relation to Nigeria business environment.
      i. Complexity
      ii. Uncertainty
      iii. Dynamic
      iv. Multi – faceted (10 marks)
Question 11

a. Justify the argument for the superiority of Shareholders Wealth Maximization objective over other financial objectives of an organization. Mention at least ten non-financial objectives pursued by an organization.

b. Compare between shareholders wealth maximization objectives and Social Responsibility objectives of the company.

c. In an employment interview as the Financial Controller of Joy Bank Plc, you were requested to state and explain your functions if employed by the organization. What will be your submissions?

Question 12

(a) Differentiate between fixed exchange rate and floating exchange rate.

(b) Identify ways of managing foreign exchange risk.

(c) Briefly explain the exchange rate risk and explain any three major types of exchange rate risk.

Question 13

(a) What is the position of the law as regards capital reduction

(b) Under what conditions can a company reduce its capital

(c) State the procedure involved in the formulation of a scheme of capital reduction.

Question 14

(a) State the importance of a decision support system to a Financial Manager. Why do you think information communication technology is necessary in financial decision making?

(b) Mention ten areas in which a Financial Manager can deploy decision support system in making strategic decisions in an organization.

(c) What do understand by spreadsheet in computer science. Mention various application and non-application packages useful to Finance/Accounts Manager.

Question 15:

(a) In 2002, the International Corporate Governance Network (ICGN) undertook a study on cross-border voting practices. Discuss its findings.

(b) Mention and explain the demands of a good corporate governance from the banking industry perspective?

(c) Mention the benefits of installing good corporate governance in an organization?
Question 16:
(a) Distinguish between microfinance and microcredit
(b) Countries trade with each other for varying reasons, explain some of the reasons why this is so

Hint: (a) You are expected to explain what each term means and to identify what distinguishes them

Hint: (b) You are expected to explain the reasons why countries of the world trade with each other.

Question 17:
(a) Discuss the history of capital market development in Nigeria
(b) What are the economic importance of the Financial Market in Nigeria
(c) Discuss the contemporary issues in the development of the Capital Market in Nigeria.

Question 18:
(a) Mention the different challenges Managers face in ensuring Corporate Governance standards are met.
(b) State the functions and responsibilities of the Board of Directors in the installation of corporate governance in the financial institution. 
(c) Who are the non-executive Directors and how do they carry out their oversight functions in a financial institution.

Question 19:
(a) What is Corporate strategy? Mention different types of corporate strategy an organization can adopt.
(b) With the aid of a diagram explain the BCG Business Portfolio Matrix
(c) Discuss the differences among the 3 levels of strategy adopted by any organization

Question 20:
(a) What is an expert system and what are its advantages
(b) What do you understand by artificial intelligence in Information Communication Technology?
(c) Give reasons why the Financial Manager must keep abreast with developments in ICT.
**ANSWERS**

**Question 1:**

(a.) Hint: You are expected to define Strategic Financial Management (SFM) in detail highlighting its major objectives.

**The Scope of Strategic Financial Management covered:**

(i) Decisions regarding investments in the assets of the company: the most appropriate level and mix of the assets.

(ii) Decisions regarding how such investments should be financed: the optimum level and mix of funding requirements for the assets (5 marks)

(b). Hint: Some relevant ICT Terminologies that will be of interest to the finance manager

Includes (i) Electronic Commerce (e-Commerce) (ii) Electronic Banking (iii) Electronic Fund Transfer (EFT) (iv) Electronic Data Inter-change (EDI) (v) Financial Electronic Data Inter-change (FEDI) (vi) Internet & Extra-net etc. Students are expected to explain and mention their different uses.

(c) **How to embrace good Corporate Governance**

**Common Goal:** According to Sanusi (2003:1) the first major step in creating good governance is for all players to mutually agree on the common corporate goals, which must be specific, explicit and consistent. In the process there will be trade-offs and delicate balancing of various interest groups. But once the goals are determined and the respective roles of the various players are explicitly defined, there should be an incentive structure and sanctions, which must be effectively monitored and enforced.

- Transparency and Accountability: transparency and accountability are the two primary corporate governance mechanisms used to control managerial behavior.
- Installation of a committed and focused Board of Directors which will exercise its oversight functions with a high degree of independence from management and individual shareholders.
- The Board should meet regularly at a minimum of four (4) regular meetings in a financial year.
- There should also be adequate advance notice for all Board meetings as specified in the Memorandum and Article of Association.
- The Board should have full and effective oversight on the bank and monitor its executive management.
- There should be well-defined and acceptable division of responsibilities among various cadres within the structure of the organisation.
• There should be balance of power and authority so that no individual or coalition of individuals has unfettered powers of decision making.
• All Directors should be knowledgeable in business and financial matters and also possess the requisite experience.
• There should be a definite management succession plan.
• Shareholders need to be responsive, responsible and enlightened.
• Culture of compliance with rules and regulations should be enforceable.
• An Effective and efficient Audit Committee of the Board should be put in place.
• External and internal auditors of high integrity, independence and competence should be put in place.
• Internal monitoring and enforcement of a well-articulated code of conduct/ethics for Directors, Management and staff.
• Regular management reporting and monitoring system (Any five point enumerated, each point attracts 1 mark each).

Question 3
(a) Problem of SME Financing
Hint:
The major problems bedevilling SME Financing in Nigeria includes: Presence of asymmetric information and the resulting adverse selection and moral hazard, the low expected return from small amounts of loans provided to small businesses and enterprises, the inability of small enterprises to provide precise information about themselves, and their inability to raise adequate collateral for their loans. Students are expected to explain in details how asymmetric information, adverse selection and moral hazard as well as other factors affect SME Financing.

(b)
For public placement issues for financing, the investment banker is the link between the corporation in need of funds and the investors. These securities are subjected to rules and regulation of agencies responsible for issuing public securities such as Securities and Exchange Commission (SEC), Nigerian Stock Market in Nigeria. The investment banker has a number of key roles and these functions cover Underwriting, Market maker, Advisor, Agency function. In terms of pricing, when a stock is sold to the public for the first time (i.e. the firm is going public), the managing stock broker or investment banker will do an in-depth analysis of the company to determine its value. The study will include an analysis of the firm’s industry, financial characteristics (Students should give some examples), and anticipated earnings and dividend-paying capability. Based on appropriate valuation techniques, a price will be tentatively assigned subject to the approval of the relevant agencies.

Private placement refers to the selling of securities directly to insurance companies, pension funds, and wealthy individuals, rather than through the security market. This financing device may be
employed by growing firm that wishes to avoid or defer an initial public stock offering or by a
publicly traded company that wishes to incorporate private funds into its financing package. Private placement usually takes the form of a debt instrument.
Some of the disadvantages of being public are (a) the firm must make all information available to
the public through Securities and Exchange Commission and other relevant agencies. Not only is
this tedious, time consuming, and expensive, but also important corporate information on profit
margins and product lines must be divulged and (b) tremendous pressure for short-term
performance is placed on the firm by security analysts and large institutional investors.

c.
Hint: Students are to give reasons for failure of Microfinance Banks and the remedies against
further collapse or decay.

Question 5:
   (a) The Pure Traditional Approach

The traditional Approach is a modification to the net income approach. It is sometimes regarded
as a middle of the road position between the net income approach (NI) and the net operating
income approach (NOI). The traditional approach assumes that the value of the firm can be
increased or the cost of capital reduced through judicious use of debt. The approach suggests that
the value of the firm increases or the cost of debt decreases initially within a reasonable limit of
debt after which further increase in debt reduces the value of the firm or increases the cost of
capital. Thus, in the traditional approach, an optimal capital structure exists and it occurs when the
market value of the firm is maximum and the cost of capital is minimum. The views of the
traditional approach can be described in three stages as follows:

1. The cost of equity is assumed to be constant or rise slightly with an increase in debt. The
cost of debt is constant and cheaper than the cost of equity. Because of the cheapness of
the cost of debt, the overall cost of capital falls as debt increases.

2. As the level of debt increases because of the added financial risk the cost of equity will
now be increasing in a way that offsets the advantage of cheap debt finance. The increase
in the cost of equity will make the increase in debt to have a negligible effect on the overall
cost of capital or the value of the firm. Within that range at a specified point the firm will
attain optimal capital structure.

3. Beyond a certain limit of leverage, investors will perceive a higher degree of financial risk.
The increase in the cost of equity will be more than offset the cheap debt finance. The
weighted average cost of capital will now start increasing. The added financial risk will
later cause the cost of debt to increase. The overall effect will cause the overall cost of
capital to increase further with leverage. The increase in the cost of capital means a
decrease in the value of the firm.
Leverage and the Cost of Capital Under the Traditional Approach

Ke = Cost of Equity
Ko = Cost of Debt
Kd = Cost of Preferred Shares
Kw = Cost of Common Equity

5(b).

<table>
<thead>
<tr>
<th></th>
<th>Alpha Plc</th>
<th>Beta Plc</th>
</tr>
</thead>
<tbody>
<tr>
<td>N Equity</td>
<td>2,400,000</td>
<td>1,250,000</td>
</tr>
<tr>
<td>Debt</td>
<td>-</td>
<td>1,500,000</td>
</tr>
<tr>
<td>EBIT</td>
<td>360,000</td>
<td>360,000</td>
</tr>
<tr>
<td>Less Interest</td>
<td>360,000</td>
<td>150,000</td>
</tr>
<tr>
<td>Market Value</td>
<td>2,400,000</td>
<td>1,250,000</td>
</tr>
</tbody>
</table>

Cost of equity = \frac{\text{Dividend}}{\text{Market Value}}

Ke = \frac{360,000 \times 100}{2,400,000} = 15\% (1 mark)

Kd = 10\%

Kw = \frac{360,000}{360,000} = 15\% (1 mark)

Ko = 16.8\% (1 mark)
Switching

Obi percentage holding in Beta Plc

\[
\frac{62,500}{1,250,00} \times 100 = 5\% \quad (1 \text{ mark})
\]

Obi current Income in Beta Plc = 5\% \times 210,000 = N10,500 \quad (1 \text{ marks})

Current stake could be sold for 62,500 \times N1 = 62,500 \quad (1 \text{ marks})

Total amount require to invest in Alpha Plc = 5\% \times 2,400,000 = 120,000 \quad (1 \text{ marks})

Amount at hand

\[62,500\]

Amount to borrow

\[57,500\] \quad (1 \text{ marks})

Income expected at Alpha Plc \quad 5\% \times 360,000 = 18,000 \quad (1 \text{ marks})

Less 10\% \times 57,500 = 5,750 \quad (\frac{1}{2} \text{ marks})

Net Income from Alpha Plc = 12,250 \quad (1 \text{ marks})

Less income from Beta Plc = 10,500

Gain from Switching = 1,750 \quad (1 \text{ marks})

Total (11 \frac{1}{2} \text{ marks})

Question 7:

Secured Home Plc

(a) \quad \text{BALANCE SHEET POST – RECONSTRUCTION}

\begin{align*}
\text{Fixed assets} & \quad \text{N’000} & \quad \text{N’000} \\
\text{Property (180,000 x 60\%)} & \quad 108,000 \\
\text{Plant (140,000 x 60\%) + 50m} & \quad \text{134,000} \\
\text{Current assets} & \quad \text{242,000} \\
\text{Stocks} & \quad 100,000 \\
\text{Debtors (40,000 x 90\%)} & \quad \text{72,000} \quad \text{172,000} \\
\text{Ordinary shares (See below)} & \quad 96,000 \\
14\% \text{ Unsecured debentures (200,000 x 50\%)} & \quad \text{100,000} \quad \text{196,000} \\
\text{Trade creditors (120,000 x 50\%)} & \quad 60,000 \\
\text{Bank overdraft (140,000 + 9,000)} & \quad \text{158,000} \quad \text{218,000} \\
\text{(5 \frac{1}{2} \text{ marks})} & \quad \text{414,000}
\end{align*}
Ordinary shares are made up as follows:  

<table>
<thead>
<tr>
<th>Description</th>
<th>N’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Original shareholder (200,000 x 10%)</td>
<td>20,000</td>
</tr>
<tr>
<td>Preference shares (40,000 x 10%)</td>
<td>4,000</td>
</tr>
<tr>
<td>Issued to debenture holders</td>
<td>40,000</td>
</tr>
<tr>
<td>Right issue one for two (64,000 x 50%)</td>
<td>32,000</td>
</tr>
</tbody>
</table>

(¼ mark each for a tick, 5 Marks, ½ mark for Heading, total 5 ½ marks)

1. In case of immediate liquidation where there is no secured creditor

<table>
<thead>
<tr>
<th>Description</th>
<th>N’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proceed from forced sales</td>
<td></td>
</tr>
<tr>
<td>Property</td>
<td>70,000</td>
</tr>
<tr>
<td>Plant</td>
<td>50,000</td>
</tr>
<tr>
<td>Stock</td>
<td>60,000</td>
</tr>
<tr>
<td>Debtors</td>
<td>60,000</td>
</tr>
<tr>
<td>Available to all outstanding shareholders</td>
<td>240,000</td>
</tr>
</tbody>
</table>

All creditors

<table>
<thead>
<tr>
<th>Description</th>
<th>N’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>14% Unsecured debenture</td>
<td>200,000</td>
</tr>
<tr>
<td>Trade creditors</td>
<td>120,000</td>
</tr>
<tr>
<td>Bank overdraft</td>
<td>140,000</td>
</tr>
<tr>
<td></td>
<td>460,000</td>
</tr>
</tbody>
</table>

The ratio of sharing 240/460 = 52.18k If means that the maximum any creditor would receive would be 52.18k of every N1.

a. The unsecured debenture would receive .5218 x N200,000 = N104,360m. to lose N95,640m
b. The trade creditor would receive = .5218 x 120,000 = N62,616. To lose N57,384.
c. Bank over to receive .5218 x 140,000 = N73,052. To lose N66,948. (2 ½ marks)

IN A CASE OF RECONSTRUCTION
If reconstruction takes place, the company will make annual profit of N55m which will be allocated as follows

<table>
<thead>
<tr>
<th>Description</th>
<th>N’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit before interest</td>
<td>55,000</td>
</tr>
</tbody>
</table>
Less: Interest
14% N100m Unsecured debenture (14,000)
Bank overdraft (18% x 158,000) (28,440)
Profit available as dividend 12,560

DPS = N12,560m
96m shares i.e 13k per share

i. The Ordinary shareholders -
The original shareholders will become minority holders (15%). They will be expected to inject N10m more by way of rights issue and will claim dividend of 13k per share on 30m shares. i.e N3,900,000. Their new investment of N10m has yielded a return of 39%. That is, 3,900/N10m. This is better than nothing in the event of immediate liquidation.

ii. The Preference shareholders –
In the event of a forced sale they would receive nothing. But if a reconstruction takes place the preference share holders would have their 40m preference shares reduced to 4m ordinary shares and they would have to N2m in a right issue, so that their total holding in the company would be 6m shares on which they would receive 13k each on 6m shares. i.e N780,000. It means they also have made a return of 39% on the N2m they newly invested. 780/2000. 39%

iii. The Secured debenture holders –
The conversion of their N200m debenture for 40m ordinary shares & 14% 100m Unsecured loan stock means an instant loss of N60m in their value. Additionally, they will need to inject N20m by way of right issue summing up to N60m thereby holding 62.5% of the equity base of the company which will enable them have firm control of the company. Their earnings will be as follows:

| Interest on 14% N100m debenture | 14,000 |
| Dividend (13k x N60m)           | 7,800  |
|                                  | 21,800 |

Undoubtedly, if they are successful convinced, this scheme places them better.

iv. The bank –
If the company went into liquidation the bank would be owed N140m and would be ranked with other creditor depending on the income available to all creditors. But in a reconstruction, the bank overdraft is increase to N158m. I wonder if any bank would accept to give a dying company an overdraft but a new interest rate of 18% which is undoubtedly an incentive will put the bank in a position to receiving annual interest of 18% x N158m = N28,440m per anum. In an immediate liquidation where there are no secured creditor, they would get .5218 x N140m = N73.05m. The bank will have to give it serious consideration if they want to take the risk of getting N73.05m now or continue to get N28.4m annually.

v. The trade creditor
The amount they are being owed N120m is to be written down by 50% to have N60m outstanding. They loose N60m instantly. They are however assured of repayment of the N60m in the foreseeable future. If compared to their position in a liquidation where there are no secured debenture, they would rank with other creditors to get .5218 of a naira and that would
place them at .5218x N120m = N62.616m which is better than N60m in the future so they may not opt for the reconstruction. (2 marks each, total 10 marks).

Question 9:
(a) **Hint:** Students are expected to define International finance and International Banking giving two practical examples to buttress their explanations.

(b) **Hint:** The answer should begin by stating that the methods of settling International transaction is through balance of payments which consists of current and capital accounts. The students should further explain the components of each account and how it is applied. They are also required to define the payment statement and how it operates

Question 11
**Hint:** (a) Students are expected to state the benefits of pursuing Shareholders Wealth Maximization objectives over other financial objectives. The question also requires them to mention 10 non-financial objectives pursued by the management of any organisation.

**Hint:** (b) Students are expected to explain shareholders wealth maximisation objective and social responsibility activities of the company with practical examples. From the examples given they are to state the ones that are at variance and in tandem with both objective.

**Hint:** (c) This is a straight forward question where students are requested to state the functions of the Financial Controller in a organisation.

Question 13
**Hint:** (a) State the stipulations of sections 105 – 111 of the Companies and Allied Matters Act 1990 which deals with the Reduction of Share Capital.

**Hint:** (b) State the conditions stipulated by the CAMA, 1990 under which a company is authorized to reduce its share capital.

**Hint:** (c) The question requires students to state the steps in order of sequence on how to formulate a scheme of capital reduction.

Question 15:
**Hint:** (a) The question expects students to discuss the outcome of the study conducted by the ICGN in 2002 and its implications.

(b) Students are required to state the components of an ideal corporate governance in the banking industry.
Question 18:

**Hint: (a)** The students are expected to state the legal, regulatory and non-regulatory challenges Managers face in ensuring corporate governance is maintained in an organization.

(b) It requires students to state the responsibilities and functions of the Board of Directors in the implementation of corporate governance in a financial institution.

C Define Non-Executive Directors and how they carry out their oversight functions.

Question 20:

**Hint: (a)** The student is expected to define an expert system stating its benefits in financial decision making.

(b) Define artificial intelligence in any organization and how it applies to the financial manager in its decision making.

(c) There various reasons why the Financial Manager should update him or herself in information management. A typical example is to cope with competition.