



LANDMARK UNIVERSITY, OMU-ARAN

COURSE COMPACT TEMPLATE

COLLEGE: BUSINESS AND SOCIAL SCIENCES
DEPARTMENT: ACCOUNTING AND FINANCE
PROGRAMME: BANKING AND FINANCE
COURSE COMPACT FOR:

COURSE

COURSE CODE: BFN 311
COURSE TITLE: BUSINESS FINANCE II
CREDIT UNIT: 3
COURSE STATUS: COMPLUSORY

LECTURER'S DATA

NAME OF THE LECTURER: FRANK AWONUSI (DR.)
NAME OF THE LECTURER: AJAYI S. ABIODUN
QUALIFICATIONS OBTAINED: MSc.
DEPARTMENT: ACCOUNTING AND FINANCE
COLLEGE: BUSINESS AND SOCIAL SCIENCES
E-MAIL: AJAYI.ABIODUN@LMU.EDU.NG
OFFICE LOCATION: A114

CONSULTATION HOURS: SHOULD BE INDICATED AND MUST BE PLACED OUTSIDE THE DOORS

INTRODUCTION TO THE COURSE

COURSE DESCRIPTION: This is a course on Business Finance that will expose student to Capital Structure and its components. It also explains the distribution of earnings to the contributors with various theories supporting them. Emphasis will be laid on the various financing and its implication. The Financial Statement of affairs and concepts of financial ratio and their limitations will be discussed. Finally analysis of Working Capital and Valuation of Firms with the various forms of Mergers and acquisition and take over will also be discussed.

COURSE JUSTIFICATION: This course in which different business financing options are treated will equipped students the ability to appraise various financing options that best result in the minimisation of cost to financing any business generated. It will also expose the students to various methods of evaluating investment and decision making criteria in the area of Dividend policy. It will provide them with the knowledge and ability of the uses of financial ratios to various users. Moreover, the course will introduce them managerial capabilities qualities in other ad-hoc financial administrative functions expected of future job creators through share innovativeness in line with the vision of Landmark University.

COURSE OBJECTIVES: At the end of this course the students are expected;

1. To develop an understanding Business finance which will enable students to evaluate the investment, financing and dividend decision of corporate bodies in order to maximise their shareholders wealth.
2. To understand the application of basic analytical techniques to the various financial management problems.
3. To enhance their effectiveness on practical financial issues as a result of practical problems in finance they have been exposed to.

4. To master practical methods of evaluating corporate firms and to ascertain their profitability and liquidity ratings.

COURSE CONTENT: Week 1 & 2 - The concept of Cost of capital, Significance of cost of capital, Determining component of cost of capital, Cost of Different Sources of cost of capital, Weighted average cost of capital, Floatation cost, Cost of capital and Investment Analysis, Measuring cost of capital in practice.

Week 3 & 4 Capital Structure and Leverage – Operating leverage, Financial leverage, operating leverage, degree of financial leverage, degree of operating leverage, combine leverage, calculation of indifference point.

Week 5 & 6 Dividend Policy – Dividend payout ratio, factors affecting dividend decision, forms of dividend payment.

Week 7 Dividend Policy - Relevancy theory and Irrelevancy theory;

Week 8 & 9 Financial Ratio Analysis – Explain the nature and meaning of financial statement, List of different users of financial statement, Description of the various types of financial analysis, Uses of financial ratio,

Week 10 Financial Ratio Analysis – Analyse the classification of financial ratio and Explaining the limitation of financial ratio

Week 11 & 12 Mergers & Acquisition – Synergy, forms of combination, reasons for merger, factors to be considered for merger, legal requirement, prevention of merger, minimum and maximum sums

Week 13 & 14 Revision

COURSE EXPECTATIONS:

S/N	GRADING	SCORE(%)
1.	CONTINUOUS ASSESSMENTS	
	• C.AI	7%
	• C.AII (MID-SEMESTER TEST)	15%
	• C.AIII	8%
2.	ASSIGNMENT	
3.	PRACTICAL (LABORATORY WORK)/ CASE STUDIES	
4.	FINAL EXAMINATION	70%
5.	TOTAL	100

N.B.

THIS VARIES FROM COLLEGE TO COLLEGE. SO PLEASE, FIND OUT THE GRADING METHOD IN YOUR COLLEGE

COURSE DELIVERY STRATEGIES: An interactive lecture delivery method backed up with power point presentation will be adopted. The implication of this is that students will be allowed to make their inputs through observations, questions and comments while the lecturer will also ask questions on the topic taught, to get feedbacks to ensure learning took place. Students will be encouraged and expected to visit the library to source and read relevant recommended textbooks on the topics taught. They are also encouraged to make use of internet facilities availed them by the school authority to get relevant materials online.

COURSE DURATION:

LECTURE CONTENT

MODULE 1

- **WEEK 1 AND 2:** The concept of Cost of capital, Significance of cost of capital, Determining component of cost of capital, Cost of Different Sources of cost of capital, Weighted average cost of capital, Floatation cost, Cost of capital and Investment Analysis, Measuring cost of capital in practice.

OBJECTIVES Objectives: By the end of this topic, the students should be able to;

1. Explain the concept of cost of capital.
2. Describe the elements of cost of Capital
3. Enumerate the importance of cost of capital
4. Explain floatation cost
5. Calculate different sources of cost of capital
6. Compute weighted average cost of capital
7. Estimate the overall cost of capital

- **DESCRIPTION**

FIRST HOUR:

EXPLAINING the concept of Cost of capital, Significance of cost of capital, Determining component of cost of capital,

SECOND HOUR

Cost of Different Sources of cost of capital, Weighted average cost of capital,

THIRD HOUR,.

- Floatation cost, Cost of capital and Investment Analysis, Measuring cost of capital in practice.

FOUTH HOUR

- Measuring cost of capital in practice.

- **STUDY QUESTION:**

ABC limited has authorized shares of 50 million of N1 each. 80% of the shares had been issued and each is currently valued at 320k. Dividend amounting to N16 million was recently paid. The estimated growth rate is 18%. What is the cost of equity?

May Nigeria limited is entirely finance by equity capital currently valued at 250k each. The company has authourised share capital of 1.25m N1 ordinary shares. 80% of which had been issued. Required: Calculate the cost of equity capital assuming the latest dividend has just been paid. The financial account of the company in the last seven years is as follows:

Year	Earnings	Dividend
1998	300,000	275,000
1997	280,000	255,000
1996	265,000	230,000

1995	250,000	200,000
1994	220,000	195,000
1993	180,000	135,000
1992	150,000	100,000

READING LIST - Akinsulire, Oye (2002) Financial Management 2nd ed. El-Toda Ventures ltd. Lagos Nigeria

Brigham, E.F (1980) Fundamentals of Financial Management, The Dryden Press, Hinsdale Illinois, 2nd ed.

Brirman, H. and Smith S., The capital Budgeting Decision, Macmillan.

Freear, John (1980) The management of Business Finance, London Pitman Publishing ltd.

Mclanoy, E.J (1994), Business Finance for Decision Makers, London Pitman Publishing Ltd, 2nd Ed.

Olowe, R.A (1998) Financial Management, Concepts, Analysis and Capital Investment 2nd Ed. Brierly Jones Nigeria limited

Pandey, I. M. (1995) Financial Management 6th Ed. Vikas Publishing House PVT. Ltd India

Van Horne, J.L Financial Management and Policy

Winfield, R.G & Curry, S.J Success in Investment 1st edition Richard Clay (The Chaucer press) Ltd, Bungay, London.

MODULE 2

WEEK 3

TOPIC :- CAPITAL STRUCTURE

OBJECTIVES:-

Explain the meaning of capital structure

Identify underlying assumptions of capital structure.

Explain the theories of capital structure by the two main schools of thought.

Understand the factors that impact on a firm's capital structure decision.

DESCRIPTION

FIRST HOUR: Explain the meaning of capital structure and Identify underlying assumptions of capital structure

SECOND HOUR: Explain the theories of capital structure by the two main schools of thought. Understand the factors that impact on a firm's capital structure decision.

THIRD HOUR

STUDY QUESTIONS

WEEK 4

TOPIC:

Leverage – Operating leverage, Financial leverage, operating leverage, degree of financial leverage, degree of operating leverage, combine leverage, calculation of indifference point

OBJECTIVES: At the end of this lecturer, students will be able to

- Understand and explain the meaning of leverage
- Differentiate between financial and operating leverage
- Analyze the effect of leveraged on a firm's earnings per share

- Appreciate the various applications of leverage in analyzing the operations of a firm.
- Calculate the Indifference point or Break-even point

➤ **DESCRIPTION**

FIRST HOUR: Operating leverage, Financial leverage

SECOND HOUR: operating leverage, degree of financial leverage, degree of operating leverage

THIRD HOUR: combine leverage, calculation of indifference point

➤ **STUDY QUESTIONS:**

- i) Sotade ltd currently has a sales volume of 50,000 units with a total fixed cost of N300,000. Selling price per unit is N20 while variable cost per unit is N10. Calculate the degree of operating leverage at 50,000 units
- ii) Peace ltd is financed by a 15% N500,000 debentures and 800,000 ordinary shares of N1 each. In respect of its operation for the just concluded financial year, the company made a turnover of N2m on its product Q which sells at N100 per unit and a variable cost of N40 per unit and the total fixed operating cost is N400,000.

Required

1. Calculate the break – even points in Units
2. Degree of operating leverage
3. Degree of financial leverage
4. Combined leverage effect.

iii) Calculate the level of EBIT at which the indifference point between the following financing alternative will occur.

1. Ordinary shares of N1,000,000 of 15% debenture of N500,000 and ordinary share of N500,000.
2. Ordinary shares of N1,000,000 or 13% preference share capital of N500,000 and ordinary share capital of N500,000
3. Ordinary share capital of N1,000,000 or ordinary share capital of N500,000, 13% preference share capital of N200,000 and 15% debenture of N300,000
4. Ordinary share capital of N600,000 and 15% debenture of N400,000 or ordinary shares capital of N400,000, 13% preference shares capital of N200,000 and 15% debenture of N400,000.
5. Ordinary share capital of N800,000 and 13% preference share capital of N200,000 or ordinary share capital of 400,000, 13% preference share capital of N200,000 and 15% debentures of N400,000.

Assume that the corporate tax is 60% and the price of ordinary shares is N10 in each case.

Cookey and Sons Ltd. Is currently an all equity financed firm which has a book value total capital structure of #2million (consisting of 2,000,000 shares of #1:00 each). The company currently made a profit before interest and tax of #500,000 and pays all

earnings as dividend. The company is considering issuing debt in order to retire shares. The cost of debt and cost of equity at various levels of debt are given in the table below:

Amount of debt	Average Cost of Debt	Cost of Equity
#200,000	10%	20%
#400,000	10%	20.5%
#600,000	10.5%	21%
#800,000	11.0%	23%
#1,000,000	13%	25%
#1,000,000	15%	30%

Required:

- (a) What is the optimal capital structure of Cookey and Sons Ltd. How many shares must be retired?
 - (b) Sketch the graph of cost of equity, cost of debt and cost of capital. Hence confirm the result in (a)
2. An investor is considering a stock. The stock paid #1 as dividends in the last 12 months. It is expected that the long-term growth rate of dividends and earnings will be 7%. The current yield on Treasury bill is 6%. The investor feels that a 4% premium for risk should be added. Calculate the cost of the stock.

READING LIST: SEE THE LIST IN PREVIOUS WEEK

MODULE 3

WEEK 5 AND 6

TOPIC:

Dividend Policy – Meaning of the term Dividend, various forms of dividend, factors affecting dividend decision, forms of dividend payment.

OBJECTIVES:

Define the term dividend

Identify forms of dividend

Enumerate factors affecting dividend decision

Explain dividend Theories: Relevancy Vs Irrelevancy theories

➤ DESCRIPTION

FIRST HOUR: Meaning of the term Dividend, various forms of dividend

SECOND HOUR: factors affecting dividend decision

THIRD HOUR: forms of dividend payment

STUDY QUESTIONS:

The following represent the capital structure of Jackson plc:

	N'000
Ordinary share capital (1,000,000 shares at N2.00 per share, nominal	2,000
Capital reserves	1,500

Retained earnings

6,500

10,000

The current market price per share of Jackson plc is N5.00 and the current profit after tax is N15 million. Supposing Jackson plc pays 20% stock dividend, how will it affect the:

- a. Capital structure of the company?
- b. Earnings per share?
- c. Total earnings of shareholders?
- d. Market price per share?
- e. Total value of shareholders' holding?



MODULE 3

WEEK 7

TOPIC: Dividend Policy - Relevancy theory and Irrelevancy theory

OBJECTIVES:

➤ **DESCRIPTION**

FIRST HOUR: Dividend Policy - Relevancy theory

SECOND HOUR: Dividend Policy - Irrelevancy theory

➤ **STUDY QUESTIONS:**

- 1 XYZ ltd expects to achieve earnings next year of N2.4m and these will continue in perpetuity without any growth at all, unless a proportion of earnings are retained. In other words, paying 100% of earnings as dividend would restrict the coy to a nil –growth future. If the coy retains 1/3 of its earnings, an annual growth rate in earning and dividend of 9% p.a in perpetuity could be achieved. Alternatively if the coy were to retain 2/3 of its earnings an annual growth rate of 12% p.a in perpetuity could be achieved. The return currently required by XYZ ltd. Shareholders is 16%. If retention were 2/3 of earnings, the return required would be 24%.
Required
What is the optimum retention policy for XYZ ltd?
- 2 ABC is considering two options for dividend payment under the current year. Total earnings has been given as N3.6m. The options are as follows:
 - a. To retain 40% in which case the growth rate will be 20% at a cost of equity capital i.e Ke at 25%.
 - b. To retain 25% in which case the the growth rate will be 12% at the same cost of equity capital of 25%.

Required

Which policy will you recommend?

MODULE 4

WEEK 8 AND 9

TOPIC: Financial Ratio Analysis – Explain the nature and meaning of financial statement, List of different users of financial statement, Description of the various types of financial analysis, Uses of financial ratio, Analyse the classification of financial ratio and Explain the limitation of financial ratio

OBJECTIVES: At the end of the lecture the student is expected to:

- Explain the nature and meaning of financial statement
- List of different users of financial statement
- Description of the various types of financial analysis
- Uses of financial ratio

➤ **DESCRIPTION**

FIRST HOUR: Financial Ratio Analysis – Explain the nature and meaning of financial statement, List of different users of financial statement,

SECOND HOUR: , Description of the various types of financial analysis, Uses of financial ratio,

THIRD HOUR:

➤ **STUDY QUESTIONS:**

This exercise is anticipatory and should be attempted after students have been put through final accounts.

The summarised balance sheet and operating results of Wellington limited for the two years ended 30th September 19X1 were as follows:

Balance Sheet as at 30th September 19X1

	19X1	19X2
	N'000	N'000
Fixed Asset (Net)	16,222	6,941
<u>Current Assets</u>		
Stock	62,294	52,196
Debtors	54,859	50,052
Bank	<u>7,234</u>	<u>14,565</u>
	<u>124,387</u>	<u>116,813</u>
<u>Current Liabilities</u>		
Creditors	47,055	42,885
Taxation	4,154	3,219
Dividend	<u>2,500</u>	<u>2,250</u>
	<u>53,709</u>	<u>48,354</u>
Net Current Asset	70,678	68,459
10% Debenture 19X1 – 4	<u>25,000</u>	<u>25,000</u>
Net Assets	<u>61,900</u>	<u>50,400</u>
Financed By		
Ordinary Shares of N1 each	12,500	12,500
Revenue Reserve	35,874	29,787
Deferred Taxation	<u>13,526</u>	<u>8,113</u>
	<u>61,900</u>	<u>50,400</u>

Operating Results for the year ended 30th September 19X1

	19X1	19X2
	N'000	N'000
Sales	672,944	559,071
Profit before interest and taxation	23,412	20,882
Interest Payable	2,500	2,500
Taxation	10,506	8,747
Dividend	3,750	3,500

The shares of the company were quoted at N1.20 at 30th September, 19X1.

You are required to;

- a). Calculate from the balance sheet and operating result:-
 - i). Two ratios of interest to creditors
 - ii). Two ratios of interest to management
 - iii). Two ratios of interest to shareholders

Comment briefly upon the changes between 19X0 and 19X1.

Source: Igben, R.O : Financial Accounting Made Simple, ROI publishers, 1999.

MODULE 5

WEEK 10

TOPIC: Financial Ratio Analysis – Analyse the classification of financial ratio and Explain the limitation of financial ratio

OBJECTIVES:

Analyse the classification of financial ratio

Explain the limitation of financial ratio

➤ **DESCRIPTION**

FIRST HOUR: Analyse the classification of financial ratio

SECOND HOUR: Explain the limitation of financial ratio

➤ **STUDY QUESTIONS:**

This exercise is anticipatory and should be attempted after students have been put through final accounts.

The summarised balance sheet and operating results of Wellington limited for the two years ended 30th September 19X1 were as follows:

Balance Sheet as at 30th September 19X1

	19X1	19X2
	N'000	N'000
Fixed Asset (Net)	16,222	6,941
<u>Current Assets</u>		
Stock	62,294	52,196
Debtors	54,859	50,052
Bank	<u>7,234</u>	<u>14,565</u>
	<u>124,387</u>	<u>116,813</u>

<u>Current Liabilities</u>		
Creditors	47,055	42,885
Taxation	4,154	3,219
Dividend	<u>2,500</u>	<u>2,250</u>
	<u>53,709</u>	<u>48,354</u>
Net Current Asset	70,678	68,459
10% Debenture 19X1 – 4	<u>25,000</u>	<u>25,000</u>
Net Assets	<u>61,900</u>	<u>50,400</u>
Financed By		
Ordinary Shares of N1 each	12,500	12,500
Revenue Reserve	35,874	29,787
Deferred Taxation	<u>13,526</u>	<u>8,113</u>
	<u>61,900</u>	<u>50,400</u>

Operating Results for the year ended 30th September 19X1

	19X1	19X2
	N'000	N'000
Sales	672,944	559,071
Profit before interest and taxation	23,412	20,882
Interest Payable	2,500	2,500
Taxation	10,506	8,747
Dividend	3,750	3,500

The share of the company were quoted at N1.20 at 30th September, 19X1.

You are required to;

a). Calculate from the balance sheet and operating result:-

- i). Two ratios of interest to creditors
- ii). Two ratios of interest to management
- iii). Two ratios of interest to shareholders

Comment briefly upon the changes between 19X0 and 19X1.

Source: Igben, R.O : Financial Accounting Made Simple, ROI publishers, 1999.

MODULE 6

WEEK 11 AND 12

TOPIC:

Mergers & Acquisition – Synergy, forms of combination, reasons for merger, factors to be considered for merger, legal requirement, prevention of merger, minimum and

maximum sums

OBJECTIVES: At the end of this lecture/topic students should be able to;

Meaning of Mergers and Acquisition

Classification of the various types of mergers and Synergy, forms of combination

Define the underlying assumptions and motives with the benefits of mergers

List the steps that actions that can prevent mergers

Explain factors to be considered in mergers and acquisitions

Identify those who are involved in mergers and acquisition and steps necessary in mergers and acquisition.

Calculate minimum and maximum sum.

➤ **DESCRIPTION**

FIRST HOUR: Meaning of Mergers and Acquisition, Classification of the various types of mergers and Synergy, forms of combination

SECOND HOUR: factors to be considered for merger, legal requirement,

THIRD HOUR: prevention of merger, minimum and maximum sums

➤ **STUDY QUESTIONS:**

1. The relevant data for 2 companies is as follows :

	Irako	Kuwate
Current earning	800,000	350,000
No. of shares in issue	1 million	1 million
Proportion of earnings retained	None	40%
Return on investment	N/A	25%
Required return of ord. shares	15%	18%

Both dividends have just been paid. Kuwate wishes to take over Iroko. It will retain the same dividend policy but the return earning on new investments will fall to 20% and the required rate of return of the ordinary share will be 16%.

REQUIRED:-

1. Calculate the existing price of Irako and Kuwate
2. Evaluate the maximum price which Kuwate will pay for Irako

Calculate the number of shares issued to the shareholders of Irako if the take – over price is agreed at N5.5 million

HOD's COMMENTS:

NAME: _____ **SIGNATURE** _____ **DATE:** _____
