



NATIONAL OPEN UNIVERSITY OF NIGERIA
14-16 AHMADU BELLO WAY, VICTORIA ISLAND LAGOS
MARCH/APRIL 2016 EXAMINATION

SCHOOL OF MANAGEMENT SCIENCES

Course Code: BHM 805

Credit Unit: 3.

Course Title: **CORPORATE FINANCE**

Time Allowed: 2 ¹/₂ Hours.

Instructions: 1. Attempt Question 1 and any other three (3) Questions.

2. Question 1 is compulsory and carries 25 marks
while the other 3 Questions carry 15 marks each.

3. Present all your points in coherent and orderly manner.

1. a. Explain the fundamental classification basis of accounting ratios. **5 MARKS**

b. The following figures are for Atiku Engineering Supplies Ltd as at 31 December, 2011:

	N'000	N'000
TURN OVER		
160	GROSS PROFIT	
40	AVERAGE INVENTORY AT COST	
10	EXPENSES	
8		

BALANCE SHEET

108	NON-CURRENT ASSETS	
	CURRENT ASSETS:	
	Inventory	10
	Account Receivables	8
	Bank	<u>2</u>
<u>20</u>	Total assets	
128	CURRENT LIABILITIES	
<u>10</u>		
<u>118</u>		
	CAPITAL	
<u>118</u>		

a) Calculate:

- i. Gross profit as a percentage of sales
- ii. Inventory turnover
- iii. Net Profit: Sales
- iv. Net Profit as a percentage of Capital Employed
- v. Current Ratio
- vi. Quick Asset(Acid test) Ratio

15 MARKS

b. The following figures are for another firm in the same line of business,

Devidson Engineering Services Ltd, for the year ending 31 December, 2011.

	Devidson
Engineering	
Services Ltd	
Gross profit as a percentage of sales	25%
Rate of inventory turnover	10

Net profit as a percentage of sales	10%
Net profit to total capital employed	12%
Current ratio	1:1
Quick asset(acid test) ratio	0.5:1

Compare your results in **(a)** with those given for Devidson Engineering Services Ltd. As a result of your comparison, say which you think was the more successful business during 2011, giving your reasons. **5 MARKS**

2. a. Distinguish between primary market and secondary market.
5 MARKS

b. How would you classify the types of securities issued by a company?

10 MARKS

3. a. Explain the motives for holding cash and cash equivalents.
7 MARKS

b. Explain the terms, Liquidity Risks and Exchange Rate Risks. **8 MARKS**

4. a. What do you understand by the term Working Capital? **7 MARKS**

b. Discuss the tools of corporate finance
8 marks.

5. a. Discuss the determinants of Capital Structure of a company.

7 MARKS

of Capital- **b.** Interpret the variables of Weighted Average Cost
WACC.

8 MARKS

6. Discuss the different forms of business in your
country. **15 MARKS**