



**NATIONAL OPEN UNIVERSITY OF NIGERIA**  
**14/16, AHMADU BELLO WAY, VICTORIA ISLAND, LAGOS**  
**SCHOOL OF MANAGEMENT SCIENCES**  
**SEPTEMBER/OCTOBER 2015 EXAMINATION**

**Course Code:** BUS805      **Credit Unit:** 2

**Course Title:** CORPORATE FINANCE

**Time Allowed:** 3 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
 <b><u>BALANCE SHEET</u></b>		
NON-CURRENT ASSETS		108
CURRENT ASSETS:		
Inventory	10	
Account Receivables	8	
Bank	<u>2</u>	
		<u>20</u>
Total assets		128
CURRENT LIABILITIES		<u>10</u>
		<b><u>118</u></b>
CAPITAL		<b><u>118</u></b>

**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) Rati

**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**

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

**8 MARKS**

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