



**NATIONAL OPEN UNIVERSITY OF NIGERIA**  
**Plot 91, Cadastral Zone, NnamdiAzikiwe Express Way, Jabi-Abuja**  
**Faculty of Management Sciences, Department of Financial Studies**  
**JULY 2017 Examinations**

**COURSE CODE: BUS 805**

**CREDIT UNIT: 2**

**COURSE TITLE: CORPORATE FINANCE**

**TIME ALLOWED: 2 HOURS**

**Instructions:** 1. Attempt question number One (1) and any other Two (2) questions.  
 2. Question number 1 carries 30 marks, while the other questions carry 20 marks each.  
 3. Present your work in coherent and orderly manner.

**QUESTION ONE (COMPULSORY)**

The following information relate to Ojobo Manufacturing Company Plc

**Statement of Affairs 31<sup>st</sup> December, 2011**

	N'000		N'000
Share capital	200	Freehold Property @ Cost	
320			
Retained Earnings	330	Plant and Equipment	240
Long term Loans	80	Less: Depreciation	<u>120</u> 120
Creditors	150	Motor Vehicles	120
		Depreciation	<u>60</u> 60
		Stocks	70
		Debtors	65
		Bank balance	<u>125</u>
	<u>N760</u>		<u>N760</u>

**Statement of Affairs 31<sup>st</sup> December, 2012**

	N'000		N'000
Share capital	250	Freehold Property @ Cost	
380			
Retained Earnings	356	Plant and Equipment	275
Long term Loans	30	Less: Depreciation	<u>145</u> 130
Creditors	125	Motor Vehicles	135
Bank Overdraft	79	Depreciation	<u>85</u> 50
		Stocks	160
		Debtors	<u>120</u>
	<u>N840</u>		<u>N840</u>

a) Extract the changes and indicate the nature of such changes. **15 marks**

b) Using the above data, prepare the Cash Flow Statement for the year ending December 2012 for the company. **15 marks**

## **QUESTION TWO**

a) Explain term Capital Gearing. **5 marks**

b) The information below relate to Obalende Bottle Water Company.

Share capital (Equity)	N45,000
Retained Earnings	N15,000
8% Preference shares	N120,000
Debt of the firm	N150,000

Firm's Cost of Capital is made up of Ordinary shares (Equity) 18%, Retained Earnings 14%, Preference shares 10% and Debt of the firm 9%.

You are required to compute the weighted average cost of capital (WACC) for the firm.

**15 marks**

## **QUESTION THREE**

a) The managers in a corporate entity occupy the position of an agent for the shareholders. Explain. **10 marks**

b) Differentiate between managerial compensation and control of the firm in respect of a corporate entity. **10 marks**

## **QUESTION FOUR**

Mention and explain five (5) issues that financial planning is meant to accomplish.

**20 marks**

## **QUESTION FIVE**

(a) A Convertible Bond has the following features and market assumptions:

Par Value	N1,000
Coupon Rate	8%
Annual Interest payable	N80
Market Rate of Return	10%
Term	15 years

Conversion Ratio  
Market Price per Share

20 shares  
N30

Based on this information, calculate the straight bond value and the conversion value.

**10 marks**

(b) Explain the term Capital structure. Mention determinants of the capital structure of a firm.

**10 marks**