



# **NATIONAL OPEN UNIVERSITY OF NIGERIA**

**UNIVERSITY VILLAGE, JABI-ABUJA**

**FACULTY OF MANAGEMENT SCIENCES**

**JULY 2017 FIRST SEMESTER EXAMINATION**

**COURSE CODE: BHM 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.

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## **QUESTION ONE (COMPULSORY)**

a) There four (4) types of financial market through which corporate entities can raise funds for their operations. Mention and discuss any three (3) of these markets.

**(15  
marks)**

b) The information below relate to the operations of NOUNCIL.

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.

**marks**

**15**

## QUESTION TWO

a) **Abome West Africa Inc: Statement of Affairs 31<sup>st</sup> December, 2016**

	N		N	N
Share capital	250,000	Freehold Property @ Cost		
380000				
Retained Earnings	356,000	Plant and Equipment	275000	
Long term Loans	30,000	Less: Depreciation	<u>145000</u>	
130000				
Creditors	125,000	Motor Vehicles	135000	
Bank Overdraft	79,000	Depreciation	<u>85000</u>	
50000_				
		Stocks		
160000				
		Debtors	80000	
		Cash at hand	<u>      </u>	
<u>40000</u>				
	<u>N840000</u>			<u>N840000</u>

Assuming the sales figure of the company is N975,000, calculate: (i) Cash ratio; (ii) Quick ratio; (iii) Debt- to -Equity ratio; (iv) Fixed Asset Turnover.  
**(12 marks)**

b) Discuss any four (4) shortcomings inherent in the use of financial ratios.  
**(8 marks)**

## QUESTION THREE

a) In most corporate organizations, the decision on how much working capital to hold involves a tradeoff. **ELUCIDATE.**  
**(5 marks)**

b) Firms are motivated to hold sufficient inventory in their operations. Why is it necessary?  
**(15 marks)**

## QUESTION FOUR

a) What is financial security?  
**(4 marks)**

b) The capital structure of a firm is influenced by many factors. Enumerate and discuss these determinants of capital structure.  
**(16 marks)**

## QUESTION FIVE

5(a) What do you understand by the term Option in investment? (5  
**marks)**

5(b) Why is it desirable for investors to purchase options? (15  
**marks)**