



**NATIONAL OPEN UNIVERSITY OF NIGERIA**  
**Plot 91, Cadastral Zone, Nnamdi Azikiwe Express Way, Jabi-Abuja**  
**Faculty of Management Sciences, Department of Financial Studies**  
**October/November Examination 2016**

**COURSE CODE: BHM805**

**COURSE TITLE: CORPORATE FINANCE**

**CREDIT UNIT: 3**

**TIME ALLOWED: 2 hours 30 minutes**

**Instructions:**

1. Attempt question number one (1) and any other three (3) questions.
2. Question number 1 carries 25 marks, while the other questions carry 15 marks each.
3. Present your work in coherent and orderly manner.

**QUESTION ONE (COMPULSORY)**

- a) Enumerate and explain three tools of Corporate Finance.
- b) List and discuss five basic objective functions of a corporate entity.
- c) Use these data to prepare Income Statement for Quotex Textiles Plc

5% Preference Shares	N500,000
Ordinary Shares	N500,000
Cost of Sales	N200,000
Tax	25%
Interest	15%
Debt	N1,000,000;
Sales Revenue	N750,000
Operating Expenses	N50,000

Determine the Earnings available for Equity Stockholders.

**QUESTION TWO**

Explain the following terms as they relate to management of corporate entities.

- a) Agency relationship
- b) Managerial Compensation
- c) Control of the Firm

### QUESTION THREE

#### Statement of Financial Position (Balance Sheet) for years 2007 and ending

	2008 N'000	2007 N'000
Share capital	250	200
Retained Earnings	356	330
Long term Loans	30	80
Freehold Property @ Cost	380	320
Plant and Equipment	275	240
Depreciation	145	120
Motor Vehicles	135	120
Depreciation	85	60
Stocks	160	70
Debtors	120	65
Cash at Bank	-	125
Creditors	125	150
Bank Overdraft	79	-

- Identify the differences in the figures, highlighting nature of changes.
- Prepare the Cash Flow Statement for the year ending December 2008.

### QUESTION FOUR

Calculate the Weighted Average Cost of Capital (WACC) of Lambete Table Water Company from these data: Equity Stock N45,000; Retained Earnings N15,000; 8% Preferred Stock N120,000; Loan N150,000; and Lambete's Cost of Capital comprises Equity Stock 18%, Retained Earnings 14%, Preferred Stock 10% & Loan 9%.

### QUESTION FIVE

- What are Convertible securities?
- What are the features of Convertible securities?

### QUESTION SIX

a) Share capital N480,000; Retained Earnings N356,000; Long term Loans N30,000; Freehold Property N380,000; Plant and Equipment N275,000; Motor Vehicles N135,000; Stock N160,000; Debtors N120,000; Cash at Bank N25,000; Creditors N125,000; Bank Overdraft N79,000; Short term Loans N125,000; Marketable securities N100,000.

Determine: (i) Long Term Debt-to-Total Capitalization Ratio; (ii) Quick Assets Ratio; and (iii) Cash Ratio.

- What are the limitations of Financial Ratios?