



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

Course Code: BUS 805

Credit Unit: 2.

Course Title: CORPORATE FINANCE

Time Allowed: 2 Hours.

Instructions: 1. Attempt Question 1 and any other two (2) Questions.

2. Question 1 is compulsory and carries 30 marks while the other 3 Questions carry 20 marks each.

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

1. a. Discuss the Fundamental Classification Basis of Accounting Ratios. 10 Marks

b. Use following information to complete the Statement of Affairs (Balance Sheet) and Sales information in the table that follows for Medium Industries using the following data.

All sales are on credit.

Debt ratio: 65%

Quick ratio: 1.1x

Total Assets Turnover: 2.5x

Receivable Turnover: 8.33

Gross Margin on Sales: 30%

Inventory Turnover: 5x

HOPKINS INDUSTRIES STATEMENT OF AFFAIRES (Balance Sheet)

Cash	-----	Accounts Payable	-----
Accounts Receivable	-----	Long Term debt	N 300,000
Inventories	-----	Common stock	-----
Fixed Assets	-----	Retained earnings	N 225,000
Total Assets	N1,000,000	Total Liab & Equity	-----
Sales	-----	Cost of Goods Sold	-----

20 Marks

2. a. List and explain the five items that are contained in the Articles of Incorporation of a company.

10 Marks

b. How would you compare a Corporate form of business to that of Partnership? **10 Marks**

3. Discuss any five determinants of Capital Structure. **20 Marks**

4. a. List and explain the types of Securities known to you. **10 MARKS**

b. Discuss the rights of common shareholders. **10 Marks.**

5. a. Explain the term “Convertible Securities”. **6 Marks**

b. State whether the following statements are TRUE or FALSE:

- i. Derivatives are used by corporations as a useful tool for managing aspects of a firm’s risk.
- ii. Conversion ratio is the ratio at which a convertible security can be exchanged for a non-convertible security.
- iii. Convertibles can be used as a form of deferred common stock financing.
- iv. Call option is an option to sell a specified number of shares of a stock on or before some future date at a stated price.
- v. The strike price is the price at which the holder of a call option can buy a specified amount of stock at any time prior to the option’s expiration date.
- vi. Contrary to convertibles, warrants provide for the injection of additional capital into the firm at some future date.
- vii. Both warrants and rights result in new capital equity. However, warrants are issued at an excise price below the prevailing market price of the stock; rights are generally issued at a subscription price above the prevailing market price.

14 Marks