



NATIONAL OPEN UNIVERSITY OF NIGERIA
**PLOT 91, CADASTRAL ZONE, NNAMDI AZIKIWE EXPRESS WAY, JABI-
ABUJA**
FACULTY OF MANAGEMENT SCIENCES
OCTOBER/NOVEMBER EXAMINATION 2016

COURSE CODE: BUS 805

COURSE TITLE: CORPORATE FINANCE

CREDIT UNIT: 2

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)

- a) Enumerate and explain the tools of Corporate Finance.
 - b) List and discuss the basic objective functions of a corporate entity.
 - c) Use these data to prepare Income State 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

- a) Differentiate between an agent and a principal in a large corporation.
- b) Explain the following terms as they relate to management of corporate entities.
 - i) Agency relationship
 - ii) Managerial Compensation
 - iii) Control of the Firm

QUESTION THREE

Use these data to prepare Income Statement for Quotex Textiles Plc

Balance Sheet for years 2007 and ending			
	2008	2007	
	N'000	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.
- c) Explain the term Financial Statement.

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%.
- Discuss the capital structure of a firm.

QUESTION FIVE

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?