



**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: ACC405**

**CREDIT UNIT: 3**

**COURSE TITLE: CORPORATE FINANCE**

**CREDIT UNIT: 3**

**TIME ALLOWED: 2 hours 30 minutes**

**Instructions:**

- 1. Attempt question number one (1) and any other (3) questions.**
- 2. Question number 1 is compulsory and carries 25 marks, while the other questions carry 15 marks each.**
- 3. Present all your points in coherent and orderly manner.**

**1(a) Write short notes on the following:**

- i. Forward Contract
- ii. Cost of Equity
- iii. Risk Free Rate of Return
- iv. Cost of Capital
- v. Working Capital
- vi. Business Risk Premium
- vii. Liquidity Risk
- viii. General Partnership
- ix. Capital Structure
- x. Limited Partnership

(b) Discuss the four underlying assumptions for justifying the objective function of maximizing shareholders' wealth.

(c) Advec Nigeria Limited incurred N1,403,000 in 2005 as spending on current assets. At the end of 2004, Current assets were N1,112,000, during the year, Advec Nigeria Limited invested  $N1,403,000 - N1,112,000 = N291,000$  in current assets. Current liabilities in 2004 was N428,000 and in 2005 N389,000. Calculate the change in net working capital for year 2004 and 2005.

2. (a) What are the differences between a Dealer and an Auction market?

(b) Explain 4 factors influencing the Capital Structure of a business enterprise?

3. (a) Explain the following terms:

- (i) Synergy
- (ii) Agency Relationship
- (iii) Tender Offer
- (iv) Preferred Stock

(b) What are the characteristics of a good organisation objective?

4. (a) What are the factors that you must put into consideration if you want to start a sole proprietorship business?

(b) Discuss four (4) norms for evaluating financial ratios

5. (a) List and explain four (4) factors that determine a firm's ability to sustain growth?

(b) Explain the factors that determine the optimal amount to be held in working capital

6 (a) Discuss 4 roles of Financial Planning

(b) List and explain three (3) basic approaches used to obtain exchange rate estimates for future periods