



**NATIONAL OPEN UNIVERSITY OF NIGERIA**  
**PLOT 91, CADASTRAL ZONE, NNAMDI AZIKIWE EXPRESSWAY, JABI, ABUJA**  
**FACULTY OF MANAGEMENT SCIENCES**  
**DEPARTMENT OF FINANCIAL STUDIES**  
**2021\_1 EXAMINATION**

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**COURSE CODE:** BFN805 **CREDIT UNIT: 2**  
**COURSE TITLE:** CORPORATE FINANCE  
**TIME ALLOWED:** 2 Hours  
**INSTRUCTIONS:** 1. Attempt Question Number one (1) and any other two (2).  
 2. Question Number 1 is compulsory and carries 30 marks, while the other questions carry 20 marks each  
 3. Present all your points in coherent and orderly manner

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1.

**XYZ Nig Ltd**  
**Balance Sheet (in millions of ₦)**

<b>Current Assets</b>	<b>2019 (₦)</b>	<b>2020 (₦)</b>
Cash	84	98
Account Receivable	165	188
Inventory	393	422
<b>Total Current Assets</b>	<b>642</b>	<b>705</b>
<b>Long-term Assets</b>		
Net Plant and Equipment	2731	2880
<b>Total Assets</b>	<b>3373</b>	<b>3588</b>
<b>Current Liabilities</b>		
Account Payable	312	344
Notes Payable (less than 1 year)	231	196
Total Current Liabilities	543	540
Long-Term Debt	531	457
Total Liabilities	1074	997
Owner's Equity	500	550
Retained Earnings	1799	2041
<b>Total Owner's Equity</b>	<b>2299</b>	<b>2591</b>
<b>Total Liabilities and Equity</b>	<b>3373</b>	<b>3588</b>

**XYZ Nig Ltd**  
**Income Statement (in millions of ₦)**

	<b>2019 (₦)</b>	<b>2020 (₦)</b>
Sales	2311	2872
Cost of Goods Sold	1344	1683
Gross Profit	967	1187
Depreciation	<b>691</b>	<b>785</b>
Earnings Before Interest & Taxes	276	402
Interest	141	120
Earnings Before Taxes	<b>135</b>	<b>282</b>
Taxes @ 34%	45.9	95.9
<b>Net Income (Profit)</b>	<b>89.1</b>	<b>186.1</b>

Shown is the Balance Sheet and Income Statement of XYZ Nig Ltd for 2019 and 2020. From the figures, calculate the following financial ratios: Current ratio, Quick ratio, Receivables Turnover, Average Collection Period, Inventory Turnover, Debt to Assets ratio, Return to Assets and Return to Equity. Comment on your observation in each case. **30 marks**

2a. To know whether the objective function we have chosen is the 'right one', it must exhibit certain characteristics. Explain these characteristics. **10 marks**

2b. The least restrictive of the objective is to maximize the firm value while the most restrictive is to maximize the stock price. In view of this statement, explain the underlying assumptions justifying wealth maximizing objective function. **10 marks**

3a. Explain Operating cash flow **6 marks**

3b. Discuss the process for calculating operating cash flow. **6 marks**

3c. Assume Fulman Nig. Ltd paid ₦140,000 interest to creditors and long-term debt from ₦816,000 to ₦908,000. Calculate the Net Cash Flow. **8 marks**

4a. The weighted average cost of capital (WACC) is defined as the weighted average of the costs of the different components of financing used by a firm:

$$WACC = K_e (E/CE + D+PS) + K_d (E+D+PS) + K_s (PS/(E+D+ PS))$$

Explain the independent variables of the WACC equation.  $K_e$ ,  $K_d$ ,  $K_s$ ,  $E/(D+ E+ PS)$ ,  $D/(E+D+PS)$ ,  $PS/(E+D+PS)$  **12 marks**

4b. The cost of capital is comprised of three major key risk components. In addition to these three key risk components, explain two (2) other risks associated with business. **8 marks**