



NATIONAL OPEN UNIVERSITY OF NIGERIA
Plot 91 Cadastral Zone Nnamdi Azikiwe Express Way, Jabi-Abuja
FACULTY OF MANAGEMENT SCIENCES
DEPARTMENT OF FINANCIAL STUDIES
2020_2 EXAMINATION

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 2 questions carry 20 marks each. Present all your points in coherent and orderly manner.

1a. Explain briefly the four (4) sections of an **Income Statement**. **5 marks**

1b. Below is the Income Statement showing the activities of Oba Nig. Ltd for the period ended 31st December 2019.

ACTIVITY	₦
Revenues (Turnover)	55,650,000
Cost of Goods sold	26,500,000
Selling Expenses	15,000,000
Administrative Expenses	1,590,000
Depreciation	550,000

- i) Calculate Earnings Before Interest and Taxes (EBIT).

Further information

Taxes	210,000
Interest Expenses	550,000

- ii) Prepare a Net Income Statement Before Extraordinary Items for the year ended 31st December, 2019.

Additional information

ACTIVITY	₦
Gains From Discontinued Operations	1,500,000
Extraordinary gains	650,000

- iii) Prepare a Net Income Statement After Extraordinary Items for the period under consideration.
- iv) If ~~₦~~450,000 Preferred Dividend has been provided for, then prepare a Statement of Profit to Ordinary Shareholders. **25 marks**

- 2a) Explain any five (5) inventory types or stages in the production process. **8 marks**
2b) Compare and contrast Internal Equity and External Equity Financing. **12 marks**

3a. In order to establish a Dividend Policy, some tradeoffs exist. Briefly describe these tradeoffs. **8 marks**

3b. In the light of the existing tradeoffs, discuss any four (4) determinants of Dividend Policy. **12 marks**

4a) Briefly explain the concept of “ Working Capital Management”
8 marks

4b) Analyse the compositions of the two (2) components of Working Capital **12 marks**

5a) Profit making organizations are saddled with need to arrive at the appropriate cost of production while computing the profit at the end of financial year. Accordingly, you are required to explain the Cost of Capital. **8 marks**

5b) Giving that the equation for Weighted Average Cost of Capital (WACC) is:

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

Explain Succinctly the meaning of the group letters represented.

K_e

K_d

K_s

$E/(D + E + PS)$

$D/(E + D + PS)$

$PS/(E + D + PS)$

12 marks