



NATIONAL OPEN UNIVERSITY OF NIGERIA
PLOT 91, CADASTRAL ZONE, NNAMDI AZIKIWE EXPRESSWAY, JABI, ABUJA
FACULTY OF MANAGEMENT SCIENCES
DEPARTMENT OF FINANCIAL STUDIES
2020_2 EXAMINATION.

COURSE CODE: MBF 805

CREDIT UNIT: 3

COURSE TITLE: Corporate Finance

TIME ALLOWED: 2¹/₂HRS

INSTRUCTIONS:

- 1. Attempt Question One (1) and any other three (3) questions**
 - 2. Question 1 carries 25 marks, while the other questions carry 15 marks each**
 - 3. Present all points in coherent and orderly manner**
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QUESTION 1

- (a). Explain the modalities that can be applied in determining the currency rate that can be used in forecasting expected cash flows in foreign currency. **(4 marks).**
- (b). Explain the factors that should be considered when deciding on which instruments to use in hedging risks relating to foreign exchange. **(4marks)**
- (c). In determining the amount of dividends to pay out to the shareholders, a company has to decide whether to retain much of the profits made and pay less dividends or pay much of the profits as dividends and retain less profits.
Discuss the overriding factors that should be considered in determining the amount of dividend to pay out to the shareholders. **(14 marks).**
- (d). What are the various forms of acquisition? **(3 marks).**

Total = 25 marks

QUESTION 2

- (a). Explain the primary reasons for take overs. **(4 marks).**
- (b). How do you value convertible bonds? **(4 marks)**
- (c). What are the features of convertible securities? **(4 marks)**
- (d). How do you determine the value of a warrant ? **(3 marks)**

Total = 15 marks.

QUESTION 3

- (a) Write short notes on: (i) An Option (ii) Call option (iii) Exercise price of option (iv) Put option **(5 marks)**.
- (b). Distinguish between Ordinary shares and preference shares **(4 marks)**.
- (c). Option pricing models can be used in valuing any asset but caution must be taken when using these models for capital budgeting analysis. Explain. **(4 marks)**.
- (d). How do you manage current liabilities? **(2 marks)**

Total = 15 marks.

QUESTION 4

- (a) Explain the various components of “Cost of Capital” and show how “Cost of Capital” and the components are computed?. Of what use is the cost of capital? **(13 marks)**
- (b) Distinguish between dealer market and action market **(2 marks)**

Total = 15 marks.

QUESTION 5

- (a) What are the ratios that can be used to assess (i) Short term liquidity (ii) Long term liquidity (iii) Short term profitability (iv) long term profitability. **(4 marks)**
- (b) Ratios computed for a firm can be useful for financial analysis but at times they can be faulty and misleading. Why? **(5 marks)**
- (c) What is Generally Accepted Accounting Principles (GAAP) and how is income required to be classified in the income statement? **(3marks)**
- (d) What are the functions of financial markets? **(3 marks)**

Total = 15 marks.

QUESTION 6

- (a) Explain the measures put in place as incentives to encourage the management of public companies to maximise share values. **(3 marks)**
- (b) How are companies controlled? **(3 marks)**
- (c) Identify the scope of corporate finance in any form of business entity **(3¹/₂ marks)**
- (d) (i) What are the factors to consider in setting up a Sole proprietorship?
(ii) What are the advantages of companies over sole trading and Partnership?**(5¹/₂ marks)**

Total = 15 marks.