



**NATIONAL OPEN UNIVERSITY OF NIGERIA**  
**PLOT 91, CADASTRAL ZONE, NNAMDI AZIKIWE EXPRESSWAY, JABI, ABUJA**  
**FACULTY OF MANAGEMENT SCIENCES**  
**DEPARTMENT OF FINANCIAL STUDIES**  
**2020\_1 EXAMINATION**

**COURSE CODE: MBF805**

**CREDIT UNIT: 3**

**COURSE TITLE: Corporate Finance**

**TIME ALLOWED: 2<sup>1</sup>/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**

**QUESTION 1**

- (A) What are the various ways by which financial ratios can be classified? **(5 marks)**
- (B) The Statement of Profit and Loss and other Comprehensive Income, and Statement of Financial Position of Tiewesha for the year 2017 and 2018 are as follows:

**TIEWESHA Nigeria plc**  
**STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME**  
**for the Year ended 31<sup>st</sup> DECEMBER 2017 and 2018**

	<b>2018</b>	<b>2017</b>
	<b>₦'000</b>	<b>₦'000</b>
Turnover	2,713,000	3,089,000
Cost of Sales	<u>(1,907,000)</u>	<u>(1,954,000)</u>
Gross profit	806,000	1,135,000
Operating expenses	<u>(664,000)</u>	<u>(553,000)</u>
Trading profit	142,000	582,000
Other Income	72,000	37,000
Interest charges	<u>(105,000)</u>	<u>(80,000)</u>
Profit on ordinary activities before tax	109,000	539,000
Tax on ordinary activities	<u>(69,000)</u>	<u>(191,000)</u>
Profit on ordinary activities after tax	40,000	348,000

Transfer to general reserve	(15,000)	(100,000)
Dividend proposed	<u>(20,000)</u>	<u>(150,000)</u>
Retain profit for the year	5,000	98,000
Reserve at the beginning of the year	<u>150,000</u>	<u>52,000</u>
Retain profit C/F	<u>155,000</u>	<u>150,000</u>

**TIEWESHA Nigeria plc**  
**STATEMENT OF FINANCIAL POSITION as at 31<sup>st</sup> DECEMBER 2017 and 2018**

	<b>2018</b>	<b>2017</b>
	N'000	N'000
Non – Current Assets (Less depreciation)	260,000	248,000
Long term investments	<u>60,000</u>	<u>60,000</u>
	<u>320,000</u>	<u>308,000</u>
<b>Current Assets</b>		
Inventories	942,000	696,000
Receivables (Net doubtful debts)	660,000	480,000
Bank & Cash	<u>600,000</u>	<u>180,000</u>
	<u>2,202,000</u>	<u>1,356,000</u>
Creditors: ( Due within one year)	(1,470,000)	(1,200, 000)
Creditors: (Due after one year)	<u>(10,000)</u>	<u>(8,000)</u>
	<u>1,042,000</u>	<u>456,000</u>
<b>Finance by:</b>		
Ordinary share capital (at 50k each, Issued and paid)	400,000	400,000
Reserves	<u>642,000</u>	<u>56,000</u>
	<u>1,042,000</u>	<u>456,000</u>
Market price per share	45k	60k

**Required:**

Compute the following ratios for years 2018 and 2017 and comment on the results of  
Tiewesha Nigeria plc

- |       |                                   |           |
|-------|-----------------------------------|-----------|
| i.    | Net profit margin                 | (2 marks) |
| ii.   | Return on capital employed (ROCE) | (2 marks) |
| iii.  | Return on Equity (ROE)            | (2 marks) |
| iv.   | Quick Assets ratio (Acid Test)    | (2 marks) |
| v.    | Capital Gearing ratio             | (2 marks) |
| vi.   | Sales to debtors                  | (2 marks) |
| vii.  | Debt ratio                        | (2 marks) |
| viii. | Total assets turnover             | (2 marks) |
| ix.   | Dividend per share                | (2 marks) |
| x.    | Earnings per share                | (2 marks) |

**Sub- total = 20 marks**

**Total = 25 Marks**

## **QUESTION 2**

The lack of effective planning is normally cited as reason for financial distress and failure. Therefore, effective financial planning is vital for sustainable business growth.

- (a) What is financial planning and what can it accomplish? **(6 marks)**
- (b) Explain the factors that can determine a firm's ability to sustain growth. **(4 Marks)**
- (c) Give four components of the financial report of a corporate entity. **(2 Marks)**
- (d) What are the dimensions of financial planning? **(3 Marks)**

**Total = 15Marks**

## **QUESTION 3**

- (a) Explain the two concepts of working capital. **(3 Marks)**
- (b) Explain the factors that might likely affect (i) the amount of cash to be held and (ii) the quantity inventory to be maintained by a firm. . **(9 Marks)**
- (c) What is optimal working capital and how can this be achieved? **(3 marks)**

**Total = 15Marks**

#### QUESTION 4

The decisions relating to capital structure in any given company must be cautiously taken as the firm is torn between either having equity capital or debt capital as the dominant part of its capital mix. The company should endeavour to maintain an optimal capital structure.

**Required:** Discuss the factors that can be considered in taking decisions relating to optimal capital structure in a corporate entity. **(15 Marks)**

#### QUESTION 5

- (a) What are the types of risk to which a firm may be exposed as a result of fluctuation in exchange rates and how can they be mitigated? **(7 Marks)**
- (b) What are the various types of exchange rates? **(3½ Marks)**
- (c) What are the basic approaches for obtaining the appropriate exchange rate that can be used in analyzing investment projects that involve foreign currencies? **(4½ Mark)**

**Total = 15Marks**

#### QUESTION 6

- (a) What are the problems normally encountered by organisations experiencing growth? **(6marks)**
- (b) What are security markets and what are the securities traded in these markets? **(6marks)**
- (c) Why are options purchased /sold? **(3marks)**

**Total = 15Marks**