



NATIONAL OPEN UNIVERSITY OF NIGERIA
PLOT 91, CADASTRAL ZONE, NNAMDI AZIKIWE EXPRESSWAY, JABI, ABUJA
FACULTY OF MANAGEMENT SCIENCES
DEPARTMENT OF FINANCIAL STUDIES
2021_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 questions carry 20 marks each	
	3. Present all your points in coherent and orderly manner	

1. Sun & Fun Sports Equipment must decide whether to obtain ₦1,000,000 of financing by selling common stock at its current price of ₦40 per share or selling convertible bonds. The firm currently has 250,000 shares of common stock outstanding. Convertible bonds can be sold for their ₦1,000 par value and would be convertible at ₦45. The firm expects its earnings available to common stockholders to be ₦700,000 each year over the next several years.

i. Calculate the number of shares the firm would need to sell to raise the ₦1,000,000.

ii. Calculate the earnings per share resulting from the sale of common stock.

iii. Calculate the number of shares outstanding once all bonds have been converted.

iv. Calculate the earnings per share associated with the bond financing after conversion.

v. Which of the financing alternatives would you recommend the company adopt? Why? **30 marks**

2a. With two (2) examples, discuss agency relationship. **4 marks**

2b. Differentiate between Dealer Market and Auction Market **4 marks**

2c. Write short notes on the following

i. Primary financial market **4 marks**

ii. Secondary financial market **4 marks**

iii. Securities and Exchange Commission **4 marks**

3a. Financial planning shows the way in which financial goals are to be achieved and as such plays some important roles in corporate finance. Discuss these roles. **10 marks**

3b. Discuss any four (4) factors on which a firm's ability to sustain growth depends. **10 marks**

4a. Organizational growth is one of the objectives of the firm, without which it stagnates or dies. Discuss the six (6) commonly used methods for creating organizational growth within a small business. **10 marks**

4b. Any time a firm enters a transaction that exposes it to cash flows in a foreign currency, ventures into other countries, it creates additional risks for itself. Discuss three (3) major risks that would arise in this regard. **10 marks**