



NATIONAL OPEN UNIVERSITY OF NIGERIA
UNIVERSITY VILLAGE, JABI-ABUJA
FACULTY OF MANAGEMENT SCIENCES
JANUARY 2018 EXAMINATION

COURSE CODE: MBF 805

CREDIT UNIT: 3

COURSE TITLE: CORPORATE FINANCE

TIME ALLOWED: 3 HOURS

Instructions: 1. Attempt question number One (1) and any other Three (3) questions.

2. Question number 1 is compulsory and carries 25 marks, while the other questions carry 15 marks each.

3. Present your work in coherent and orderly manner.

QUESTION ONE (COMPULSORY)

Data below relate to Delta Manufacturing Co. Ltd as at 31st December, 2017.

Sales N450,000,000; Equipment and Machinery N750,000; Motor Vehicles 500,000; Cost of Turnover 15,000,000; Stock N50,000; Equity capital N1,000,000; Depreciation: N50,000 (E&M), N25,000 (MV); Creditors N100,000; Debtors N75,000; Bank overdraft (AG Bank) N50,000; Reserves N150,000; Opening stock N60,000; 10% Debentures N50,000; Purchases N250,000; Closing stock N20,000; Total Expenses N150,000; Provision for Tax N34,000; Proposed Dividend N100,000; Interest payable N5,000; Taxation N34,000; Marketable Securities N500,000; and Cash balance (Capital Bank) 65,000.

Note: Equity stock comprises 200,000 common shares with current market price of N10 per share.

You are required to:

(a) Prepare end of year Financial Statements.

(b) Calculate the following ratios:

(i) Return on Capital Employed; (ii) Return on Equity;

(iii) Capital Gearing; (iv) Cash Ratio;

(v) Earnings Yields; (vi) Inventory Turnover ratio;

(vii) Fixed Asset Turnover; (viii) Dividend Yield;

(ix) Price Earnings Ratio; and (x) Return on Investment

2(a) There are basic alternatives to wealth maximization objective function of corporate finance. Identify and discuss these basic alternatives.

(b) Use these data to prepare Income State for Ozohu Beauty Palace Ltd

5% Preference Shares	N500,000
Ordinary Shares	N500,000
Cost of Sales	N200,000
Tax	25%
Interest	15%
Debt	N1,000,000;
Sales Revenue	N750,000
Operating Expenses	N50,000

You are required to determine the Earnings available for Equity Stockholders.

3(a) Analyze the tools of Corporate Finance.

(b) Victoria Garden City (VGC) Bakery Ltd has these end-of-year (2017) information on its operations: Equity Stock N45,000; Retained Earnings N15,000; 8% Preferred Stock N120,000; Loan N150,000; and VGC's Cost of Capital comprises Equity Stock 18%, Retained Earnings 14%, Preferred Stock 10% & Debt 9%.

You are required to calculate the Weighted Average Cost of Capital (WACC) from the data.

4(a) Assuming you are embarking on a business venture, examine the financial matters on which you will have to take decisions.

(b) Corporate finance is a balancing act that solves the short – term problems of today but takes into account the effects of those decisions on the firm. **Expatiate.**

5(a) Bros and Sons Incorporated is contemplating to obtain N1,000,000 of financing by selling common stock at its current price of N40 per share or selling convertible bonds. The firm currently has 250,000 shares of common stock outstanding. Convertible bonds can be sold for their N1,000 par value and would be convertible at N45. The firm expects its earnings available to common stockholders to be N700,000 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 to adopt and why?

5(b) Differentiate between Managerial Compensation and Agency Relationship. Give reasons which necessitate Managerial Compensation.

6(a) Analyze the mainly two types of transactions in financial market.

(b) Distinguish between Dealer Markets and Auction Markets.

(c) Discuss the role of financial planning in the firm's operations.