



NATIONAL OPEN UNIVERSITY OF NIGERIA
PLOT 91, CADASTRAL ZONE, NNAMDI AZIKIWE EXPRESSWAY, JABI, ABUJA
FACULTY OF MANAGEMENT SCIENCES
 2023_1 POP EXAMINATION.

COURSE CODE: MBF805 **CREDIT UNIT: 3**

COURSE TITLE: CORPORATE FINANCE

TIME ALLOWED: 2^{1/2} HOURS

INSTRUCTIONS:

1. Attempt Question 1 and any other three (3) Questions.
2. Question 1 is compulsory and carries 25 marks while the other 3 Questions carry 15 marks each.
3. Present all your points in a coherent and orderly manner.

Compulsory Question

1 (a) Briefly discuss the concept, Generally Accepted Accounting Principles (5 marks)

(b) Dele Okonkwo is running a business which manufactures nails and rods which are then sold to local industrial units. The abridged accounts for 2019 and 2020 are given below:

Dele Okonkwo
Income Statement for the year ending 30 September 2019 and 2020

| 2019 | | | 2020 | |
|---|------------|-------------|------------|-------------|
| | N'000 | N'000 | N'000 | N'000 |
| Sales | | 1920 | | 2180 |
| Cost of Sales | | | | |
| Direct Material Cost | 780 | | 920 | |
| Direct Wages | 510 | | 390 | |
| Factory Overheads | <u>110</u> | <u>1400</u> | <u>220</u> | <u>1530</u> |
| Gross Profit | | 520 | | 650 |
| Expenses | | | | |
| Administration Cost | 120 | | 145 | |
| Distribution Cost | <u>80</u> | <u>200</u> | <u>115</u> | <u>260</u> |
| Net Profit | | 320 | | 390 |
| Inventory of finished goods on October 1, 2018, was N180,000 | | | | |

| | 2019 | | 2020 | |
|----------------------------|--------------|------------|--------------|-------------|
| | ₦'000 | ₦'000 | ₦'000 | ₦'000 |
| Non-current Assets | | | | |
| Freehold premises | 400 | | 400 | |
| Plant and machinery | 200 | | 395 | |
| Fixtures and fittings | <u>120</u> | 720 | <u>100</u> | 895 |
| Current Assets | | | | |
| Inventory | 200 | | 250 | |
| Trade receivables | 130 | | 166 | |
| Bank balance | 30 | | -- | |
| Cash in hand | <u>10</u> | | <u>4</u> | |
| | 370 | | 420 | |
| Current Liabilities | | | | |
| Trade payables | (150) | | (160) | |
| Bank overdraft | -- | <u>220</u> | (35) | <u>225</u> |
| | | 940 | | 1120 |
| Equity | | | | |
| Capital | 900 | | 940 | |
| Net profit for the year | 320 | | 390 | |
| Less drawings | <u>(280)</u> | 940 | <u>(210)</u> | 1120 |

Required:

(a) Use the following ratios to compare the financial performance from 2019 and 2020 of Dele Okonkwo

(i) Gross profit ratio

(ii) Net profit ratio

(iii) Return on capital employed

(iv) Fixed asset turnover or non-current asset turnover

(v) Inventory turnover (times) or inventory turnover ratio **20 marks**

2 (a) How would you describe “capital structure of a firm”? **5 marks**

(b) Clarify any five (5) determinants of capital structure of a firm **10 marks**

3(a). Describe five (5) ways in which organizations achieve growth. **10 marks**

(b). Explain the term Cost of Capital within the context of Capital Structure **5 marks**

4 (a) Clarify the tools of corporate finance **5 marks**

(b) Elucidate the various risks associated with cost of capital. **10 marks**

5(a) Differentiate between current assets and current liabilities of a corporate organization. **5 marks**

(b) Discuss any five (5) reasons why organizations hold inventory **10 marks**