NATIONAL OPEN UNIVERSITY OF NIGERIA
Plot 91 Cadastral Zone Nnamdi Azikiwe Express Way, Jabi-Abuja
FACULTY OF MANAGEMENT SCIENCES
DEPARTMENT OF FINANCIAL STUDIES
2024_2 EXAMINATION

COURSE CODE: MBF 805 **CREDIT UNIT: 3**
COURSE TITLE: CORPORATE FINANCE
TIME ALLOWED: 2 ½ HOURS
Instructions:

1. **Attempt question number one (1) and any other three (3).**
2. **Question number 1 is compulsory and carries 25 marks while the other 3 questions carry 15 marks each. Present all your work/point in coherent and orderly manner.**

Question One
Ameena has been looking for a suitable investment which will give a target internal rate of return of 17 to 20%. An investment adviser has offered her company a project, the details of which are given below:
Pineapple Squash Bottling Project
Initial investment involves purchase of machinery for N1, 800,000 and installation expenses of N310, 000. The plant can produce N100, 000 cartons of pineapple squash per annum, during the first two years, rising to125, 000 cartons per annum, for the next three years. Cost of production of each carton, excluding depreciation costs is N21 and the selling price will be N27. The plant will be scrapped at the end of the 5th year and is expected to have negligible scrap value.
You are required to

a. Calculate the actual internal rate of return of the above project. You may ignore the effect of taxation.
b. Explain Internal Rate of Return (IRR) and state any two merit and demerit of IRR each
c. What are the Investment Criteria under the IRR Approach

Question Two
The following information relate to Latente Plc. and Reviva Plc. each having 30,000,000 and 80,000,000 ordinary shares in issue respectively:
Day 1: The price per share is N3 for Latente and N6 for Reviva.
Day 2: The management of Reviva Plc., at a private meeting, decided to make a takeover bid for Latente at a price of N5 per share with settlement on day 20. The takeover will produce operating savings with a present value of N80, 000,000.
Day 5: Reviva Plc. publicly announces an unconditional offer to purchase all shares of Latente Plc. at a price of N5 per share with settlement on day 20. Reviva Plc. does not announce nor make public, the operating savings of the takeover.
Day 10: Reviva Plc. announces details of the savings derivable from the takeover.
Required Assuming that the details given are the only factors having effect on the share price of both companies, determine the day 2, day 5 and day 10 share price of Latente and Reviva if the capital market is

a. Semi-strong form efficient,

b. Strong form efficient; given that:

i. The purchase consideration is cash as stated above.

ii. The purchase consideration, decided on day 2 and publicly announced on day 5, is five new shares of Reviva Plc. for six shares of Latente Plc.

Question Three

a. A corporation can have a name and enjoy many of the legal powers of natural persons. For instance, corporation can acquire and exchange property. It can enter into contracts and may sue and be sued. To start a corporation is more complicated than the other business. The incorporators must prepare articles of incorporation and a set of byelaws. Enumerate what article of incorporation must include
b. State any three (3) effects of working capital charges on liquidity risk factors?

Question Four

Mr Ayinde a business man, have his priorities in order, he understand his personal and financial goals, and write a thoughtful investment plan, he is ready to learn about securities markets, both physical and electronic, where financial or real assets are traded.

a. What are the different types of securities markets in which he might invest?
b. Who can help him achieve his goals?
c. What are his rights (state any four) as a common shareholder?

Question Five

Mr Lukman, is contemplating whether his company should issue a convertible security or not, you are required to

a. State any five reasons why he should issue a convertible security?
b. Determining the Value of a Convertible Bond from the following information

   Par Value $1,000

   Coupon Rate 8%

   Annual Interest $80

   Market Rate of Return 10%

   Term 15 years

   Conversion Ratio 20 shares

   Market Price per Share $30

Question Six

a. Explain when a firm should be pressured to increase its payout to stockholders and how such a firm should defend it.
b. Explain when a firm be pressured to reduce its payouts to stockholders and what are the consequences of excessive dividends.