



NATIONAL OPEN UNIVERSITY OF NIGERIA
PLOT 91 CADASTRAL ZONE NNAMDI AZIKIWE EXPRESS WAY, JABI, ABUJA
FACULTY OF MANAGEMENT SCIENCES
DEPARTMENT OF FINANCIAL STUDIES
2025_2 EXAMINATIONS

COURSE CODE: BFN 805 **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 2 questions carry 20 marks each. Present all your points in coherent and orderly manner.**
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1. Victory Plc is running a business which manufactures nuts and bolts which are then sold to local industrial units. The abridged accounts for 2022 and 2023 are given below:

Igwe Adenuga
Income Statement for the year ending 30 September 2022 and 2023

	2016		2017	
	₦000	₦000	₦000	₦000
Sales		1,920		2,180
Cost of sales				
Direct material cost	780		920	
Direct wages	510		390	
Factory overheads	<u>110</u>	<u>1,400</u>	<u>220</u>	<u>1,530</u>
Gross profit		520		650
Expenses				
Administrative cost	120		145	
Distribution cost	<u>80</u>	<u>200</u>	<u>115</u>	<u>260</u>
Net profit		<u>320</u>		<u>390</u>

Inventory of finished goods on 1st October 2021 was ₦180,000

Victory Plc Statement of Financial Position as at 30 September 2022 and 2023

	2022		2023	
	₦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>	<u>(35)</u>	<u>225</u>
		<u>940</u>		<u>1120</u>
Equity				
Capital	900		940	
Net profit for the year	320		340	
Less drawings	<u>(280)</u>	<u>940</u>	<u>(160)</u>	<u>1120</u>

Required:

Use the following ratios to compute the financial performance for 2022 and 2023 of Victory Plc.

- (i) Gross profit ratio
- (ii) Return on capital employed
- (iii) Inventory turnover (times) or inventory turnover ratio
- (iv) Current ratio
- (vi) Quick ratio

30 marks

2. Discuss any five (5) determinants of the capital structure of a business enterprise. **20 marks**

3. a) Explain the term Cost of Capital? **5 marks**

b) If the weighted average cost of capital (WACC) is defined by this equation:

$$\text{WACC} = K_e \left(\frac{E}{E + D + PS} \right) + K_d \left(\frac{D}{E + D + PS} \right) + K_s \left(\frac{PS}{E + D + PS} \right).$$

Explain what each or group of letters represents.

K_e

K_d

K_s

$\frac{E}{E + D + PS}$

$\frac{D}{E + D + PS}$

$\frac{PS}{E + D + PS}$

15 marks

4. a) Discuss the term Convertible Security. **10 marks**

b) Explain five (5) reasons for issuing Convertible Securities. **10 marks**