



NATIONAL OPEN UNIVERSITY OF NIGERIA
PLOT 91, CADASTRAL ZONE, NNAMDI AZIKIWE EXPRESSWAY, JABI, ABUJA
FACULTY OF MANAGEMENT SCIENCES
DEPARTMENT OF FINANCIAL STUDIES
2019_2 EXAMINATION

COURSE CODE: MBF 805

CREDIT UNIT: 3

COURSE TITLE: CORPORATE FINANCE

TIME ALLOWED: 2¹/₂ HOURS

INSTRUCTIONS:

- 1. Attempt Question One (1) and any other three (3) questions**
 - 2. Question 1 carries 25 marks, while the other questions carry 15 marks each**
 - 3. Present all points in coherent and orderly manner**
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QUESTION 1

The Statement of Profit or Loss and Financial Position of Owiya Osele for years 2015 and 2014 are as follows:

OWIYA OSESE COMPANY LTD

STATEMENT OF PROFIT TRADING AND PROFIT ACCOUNT for the year ended 31st DECEMBER, 2015

	2015		2014	
	₦'000	₦'000	₦'000	₦'000
Sales		11,040		8,664
Less: Cost of sales:				
Opening stock	696		540	
Purchases	<u>8,712</u>		<u>6654</u>	
	9,408		7,194	
Closing stock	<u>(942)</u>	<u>8,466</u>	<u>(696)</u>	<u>6,498</u>

Gross profit		2,574		2,166
Less: Expenses		<u>2,082</u>		<u>1818</u>
Net profit		492		348
Provision for tax	108		72	
Transfer to reserves	60		48	
Proposed dividend	<u>180</u>	<u>348</u>	<u>120</u>	<u>240</u>
Retain Profit		<u>144</u>		<u>108</u>

OWIYA OSESE COMPANY LTD
STATEMENT OF FINANCIAL POSITION as at 31st DECEMBER 2015

	2015		2014	
	N'000	N'000	N'000	N'000
Non – Current Assets (Less depreciation)		2,000		1,000
Long term investments		<u>178</u>		<u>560</u>
		2,178		1,560
Current Assets				
Inventories	942		696	
Receivables (Net doubtful debts)	660		480	
Bank	<u>120</u>		<u>180</u>	
	<u>1,722</u>		<u>1,356</u>	
Less: Current Liabilities				
Payables	270		360	
Dividends payable	180		120	
Taxation	108		72	
Bank overdraft	<u>312</u>		<u>156</u>	

	<u>870</u>	<u>708</u>
Net Current assets	<u>852</u>	<u>648</u>
Net assets	<u>3,030</u>	<u>2,208</u>
Finance by:		
Ordinary share capital (at 50k each, Issued and paid)	1,800	1,200
Reserves	498	300
Profit and Loss	<u>252</u>	<u>108</u>
	2550	1,608
10% Debenture	<u>480</u>	<u>600</u>
	<u>3,030</u>	<u>1,208</u>

Additional Information:

- (i) The market price per share is as follows 2015 - ₦ 1.50; 2014 - ₦ 1.45
- (ii) Expenses include debenture interest as follows: 2015- ₦48,000; ₦ 60,000

Required:

(a) Compute the following ratios for years 2015 and 2014 and comment on the results of Owiya Osese company limited.

- i. Net profit margin (2¹/₂ Marks)
- ii. Return on capital employed (ROCE) (2¹/₂ Marks)
- iii. Return on Equity (ROE) (2¹/₂ Marks)
- iv. Quick Assets ratio (Acid Test) (2¹/₂ Marks)
- v. Capital Gearing ratio (2¹/₂ Marks)
- vi. Sales to debtors (2¹/₂ Marks)
- vii. Debt ratio (2¹/₂ Marks)
- viii. Total assets turnover (2¹/₂ Marks)
- ix. Dividend per share (2¹/₂ Marks)

Total = 22 ¹/₂ Marks
(2 ¹/₂ Marks)

(b) Identify the limitations of ratios.

QUESTION 2

The maximization of shareholders' wealth is the overriding objective of every financial decision in companies.

- (a) Discuss the assumptions for the pursuance of this objective. **(10 marks)**
- (b) Explain briefly other objectives that a firm can pursue. **(5marks)**

QUESTION 3

- (a) The effective management of working capital to achieve an optimum level is always a problem in many firms as organisations are caught up between maintaining a high level of working capital and keeping a low level of working capital. There is therefore the need for trade - offs so that an optimum level of working capital can be achieved.

In the light of the above, what is working capital management? Explain the factors that can determine the level of working capital that can be maintained by a firm. **(10 Marks)**

- (b) Identify the components of working capital. **(5 marks)**

QUESTION 4

- (a) (i) Explain the term Capital Structure. **(2 ½ marks)**
 - (ii) Explain the factors that determine the capital structure of a company. **(7 ½ marks)**
- (b) Discuss briefly the use of cost of capital and its components. **(5 marks)**

QUESTION 5

- (a) Discuss the methods for creating organizational growth within a small business. **(8 marks)**
- (b) Explain the practical steps that can be taken by firms seeking corporate growth. **(7 marks)**

QUESTION 6

- (a) Explain briefly the factors that can shape the direction of dividend policy of a firm. **(7 ½ marks)**
- (b) Discuss briefly the various types of risks business firms are exposed to. **(4 ½ marks)**
- (c) How can risks arising from exchange rate be effectively managed? **(3marks)**