



NATIONAL OPEN UNIVERSITY OF NIGERIA
PLOT 91 CADASTRAL ZONE NNAMDI AZIKIWE EXPRESS WAY, JABI, ABUJA
FACULTY OF MANAGEMENT SCIENCES
DEPARTMENT OF FINANCIAL STUDIES
2023_1 POP EXAMINATION

COURSE CODE: BFN805 **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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Compulsory Question

1 a) Discuss any five (5) features of Articles of Incorporation **(10 marks)**

1(b) Wike Okezie manufactures noodles which are sold through accredited distributors. The abridged accounts for 2018 and 2019 are given below:

Wike Okezie
Income Statement for the year ending 30 September 2019 and 2020

	2018		2019	
	₦'000	₦'000	₦'000	₦'000
Sales		2020		2280
Cost of Sales				
Direct Material Cost	880		1020	
Direct Wages	610		490	
Factory Overheads	<u>210</u>	<u>1500</u>	320	<u>1630</u>
Gross Profit		520		650
Expenses				
Administration Cost	220		245	
Distribution Cost	<u>180</u>	<u>400</u>	<u>215</u>	<u>460</u>
Net Profit		120		190
Inventory of finished goods on October 1, 2017 was ₦80,000				

Wike Okezie
Balance Sheet As at 30 September 2018 and 2019

	2018		2019	
	₦'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	120		190	
Less drawings	<u>(80)</u>	940	<u>(10)</u>	1120

Required:

Use the following ratios to compare the financial performance between 2019 and 2020 of Wike Okezie

- (i) Gross profit margin
- (ii) Net profit margin
- (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. Discuss any five (5) determinants of the capital structure of a business enterprise. **20 marks**

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

b) Discuss the functions of the financial market **(10 marks)**

4. a) Discuss the term Cost of Capital **(5 marks)**

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

$$WACC = K_e (E/CE + D + PS) + K_d (E + D + PS) + K_s(PS/(E + D + PS)).$$

Explain what each or group of letters as stated below represents.

K_e

K_d

K_s

$E/(D + E + PS)$

$D/(E + D + PS)$

$PS/(E + D + PS)$

(15 marks)