



NATIONAL OPEN UNIVERSITY OF NIGERIA
Plot 91 Cadastral Zone Nnamdi Azikiwe Express Way, Jabi-Abuja
FACULTY OF MANAGEMENT SCIENCES
DEPARTMENT OF FINANCIAL STUDIES
2023_2 EXAMINATIONS

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 a coherent and orderly manner.**

1a) Explain five (5) ways in which organizations achieve growth. **10 marks**

1b) Explain what you understand by Convertible Securities **4 marks**

1c) i) An investor holds 2,000 ordinary shares which he intends to increase. He also holds a ₦5,000 par value bond to be converted to 250 shares. What is the conversion price per share? What would be his new shareholding? **8 marks**

ii) If the bondholder has the right to convert the bond at a price of ₦20. If the value of bond is ₦15,000. (If the common share price did not change from ₦20 to ₦25 as speculated), how many shares will be realised from the conversion? What is the conversion ratio? **8 marks**

2a) Explain any three (3) ways a firm can acquire another firm. **6 marks**

2b) Discuss three (3) advantages the separation of ownership from management gives the corporation over the partnership and sole proprietorship. **6 marks**

2c) The cost of capital is comprised of three (3) major key risk components. Discuss any two (2) them. **8 marks**

3a) Discuss any four (4) rights as a common shareholder **10 marks**

3b) Discuss any five (5) factors that you must put into consideration if you want to start a sole proprietorship business. **10 marks**

4a) Explain the term Cost of Capital **8 marks**

4b) If the weighted average cost of capital (WACC) is defined by this equation:

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

Explain what each or group of letters represents.

K_e

K_d

K_s

$E / (E + D + PS)$

$D / (E + D + PS)$

$PS / (E + D + PS)$

12 marks