



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: MBF805 **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.

1. Kayode Musa re-bags cement to make it available and affordable to those with lower demand. You can find below abridged accounts for 2020 and 2021:

Kayode Musa
Income Statement for the year ending 30 September 2020 and 2021

	2020		2021	
	₦000	₦000	₦000	₦000
Sales		19,200		21,800
Cost of sales				
Direct material cost	7,800		9,200	
Direct wages	5,100		3,900	
Factory overheads	<u>1,100</u>		<u>2,200</u>	<u>15,300</u>
Gross profit				
Expenses				
Administrative cost	1,200		1,450	
Distribution cost	<u>800</u>		<u>1,150</u>	<u>2,600</u>
Net profit				
Inventory of finished goods on 1 st October 2020 was ₦360,000				

Kayode Musa
Balance Sheet as at 30 September 2020 and 2021

	2020		2021	
	₦000	₦000	₦000	₦000
Non-Current Assets				
Freehold premises	4,000		4,000	
Plant and machinery	2,000		3,950	
Fixtures and fittings	<u>1,200</u>		<u>1,000</u>	
Current Assets				
Inventory	2,000		2,500	
Trade receivables	1,300		1,660	
Bank balance	300		----	

Cash in hand	<u>100</u>		<u>40</u>	
Current Liabilities				
Trade payables	(1,500)		(1,600)	
Bank overdraft	<u>----</u>		<u>(350)</u>	
		<u>9,400</u>		<u>11,200</u>
Equity				
Capital	9,000		9,400	
Net profit for the year	3,200		3,400	
Less drawings	<u>(2,800)</u>	<u>9,400</u>	<u>(1,600)</u>	<u>11,200</u>

Required:

- (a) From the Income Statement above, calculate the Gross Profit and Net Profit for 2020 and 2021 respectively. Show workings.
- (b) From the Balance Sheet above, calculate Total Fixed Assets, Total Current Assets, Total Current Liabilities and Net Current Assets for 2020 and 2021 respectively.
- (c) Use the following ratios to compare the financial performance from 2020 and 2021 of Kayode Musa firm.
 - (i) Quick ratio
 - (ii) Current ratio
 - (iii) Return on Investment
 - (v) Gross profit ratio

30 marks

2a. For a firm to establish a Dividend Policy, some tradeoffs exist. Briefly discuss these tradeoffs.

8 marks

b. In the light of the existing tradeoffs, discuss any four (4) determinants of Dividend Policy.

12 marks

3a) Briefly discuss Working Capital Management

8 marks

b) Discuss the compositions of the two (2) components of Working Capital

12 marks

4a. A firm has an outstanding bond with a ₦1,000 par value that is convertible at ₦20 per share of common stock. If the current market value of common stock per share is ₦30, what is the conversion value of the bond?

5 marks

b. The motivation for holding inventory varies depending on the type of inventory and a manufacturing firm may have inventories at different stages in the production process. Explain any five (5) motives for which a manufacturer holds inventory.

15 marks