



NATIONAL OPEN UNIVERSITY OF NIGERIA
14/16 AHMADU BELOW WAY, VICTORIA ISLAND, LAGOS
SCHOOL OF MANAGEMENT SCIENCES
JUNE/JULY, 2013 EXAMINATIONS

COURSE CODE: BHM771 CREDIT UNIT: 2

COURSE TITLE: CORPORATE FINANCIAL MANAGEMENT

TIME ALLOWED: 2 hrs.

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 questions carry equal marks each**

Present all points in a coherent and orderly manner

QUESTION 1

1a) International Carpets Company has N20 million of 12% debenture outstanding. After tax net income is N3 million. The bond indenture requires that the debt coverage ratio should be measured by times-interest-earned and be maintained at 2.5 or better; the company's tax rate is 40%. What is the company's times-interest - earned ratio?

1b) Name and explain with examples 3 major factors that influence time preference for money.

1c) Assuming that a person receives an annuity of N5, 000 for four years, if the rate of interest is 10 percent, the present value of N5, 000 annuity will be computed as?

QUESTION 2

2a) What is Present Value of an annuity?

2b) Presents Value of an Annuity Interest Factor (PVIFA) for N1 per year at an interest rate 1%, for n years

Fill in the missing cells

End Year	of	1%	5%	6%	10%
1		0.99		0.943	0.909
2			1.859	1.833	1.736
3		2.941	2.723		2.487
4			3.546		3.17

5	4.853		4.212	
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QUESTION 3

Explain the following terms in detail.

1. Book Value
2. Replacement Value
3. Liquidation Value
4. Going Concern Value
5. Market Value

QUESTION 4

4a) If you deposit N500 in a savings account paying compound annual interest of 10 percent, what will be the value of your account at the end of:

- (i) 2 years
- (ii) 5 years
- (iii) 10 years

4b) If a businessman deposits N80, 000 in a savings account, at the end of each year, for 5 years at an interest rate of 6 percent per annum. How much will be in the account at the end of the fifth year?

QUESTION 5

5) Explain in detail the relationship between Long term capital and Debenture with an adequate example.