



**NATIONAL OPEN UNIVERSITY OF NIGERIA
14/16 AHMADU BELLO WAY, VICTORIA ISLAND, LAGOS
SCHOOL OF MANAGEMENT SCIENCES
OCTOBER 2013 EXAMINATION**

COURSE CODE: BHM 771

CREDIT UNIT: 2

COURSE TITLE: CORPORATE FINANCIAL MANAGEMENT

TIME ALLOWED: 2 hrs

Instructions: 1. Attempt question Number one (1) and any other two (2) questions.

2. Question number 1 carries 30 marks, while the other questions carry 20 marks each

3. Present all your points in 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?

8 MARKS

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

15 MARKS

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?

7 MARKS

QUESTION 2

2a) Discuss 6 limitations of profit maximization objectives
6 MARKS

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 (Show your workings)
MARKS

14

End of Year	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	

QUESTION 3

Explain the following terms in detail.

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

20

MARKS

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

15

MARKS

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?

5 MARKS

QUESTION 5

5a) Problems in decision making in financial management seeks to answer some questions, what are they?

6 MARKS

5b) Fred Okoh can buy shares of Ashanti Oil Company for N25.00. Fred expects dividends to be N2.00 in one year and N4.00 in two years; and he expects to sell the share at the rate N28.00 in two years. Should Fred buy any share in Ashanti Oil if this required rate of return is 20 percent?

11 MARKS

5c) What are the 3 steps involved in the calculation of covariance between two assets?

3 MARKS