



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

COURSE CODE: BHM 805

CREDIT UNIT: 2

COURSE TITLE : CORPORATE FINANCE

TIME ALLOWED: 2 HRS

Instructions : 1. Attempt question number one (1) and any other (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

(a) Sunny days Furniture must decide whether to obtain \$1,000,000 of financing by selling common stock at its current price of \$40 per share or selling convertible bonds. The firm currently has 250,000 shares of common stock outstanding. Convertible bonds can be sold for their \$1,000 par value and would be convertible at \$45. The firm expects its earnings available to common stockholders to be \$700,000 each year over the next several years.

a. Calculate the number of shares the firm would need to sell to raise the \$1,000,000.

- b. Calculate the earnings per share resulting from the sale of common stock.
- c. Calculate the number of shares outstanding once all bonds have been converted.
- d. Calculate the earnings per share associated with the bond financing after conversion.
- e. Which of the financing alternatives would you recommend the company adopt? Why?

(b) There are assumptions that can be used to justify the objective function of maximizing shareholders' wealth, Discuss.

(c) Explain the tools of Corporate Finance.

QUESTION 2

- (a) Financial market can be divided into two what are they? Explain.
- (b) Explain the ways in which organizations achieve growth?

QUESTION 3:

- (a) Discuss some of the limitations of Financial ratios.
- (b) Explain the Rights of a Common Shareholder.

QUESTION 4:

- (a)) Differentiate between Current asset and Current liabilities of a firm.
- (b) Discuss the determinant or factors which determine the capital structure of a business enterprise.

QUESTION 5:

- (a) Elaborate on the different types of key Risk components.
- (b) What are the alternatives to maximizing stakeholder wealth?