MID-WEST UNIVERSITY
SCHOOL OF MANAGEMENT (MUSOM)
(An Autonomous Institution)
MUSOM EXAMINATION SECTION
FINAL EXAMINATION-2024 (2080)
BACHELOR OF BUSINESS ADMINISTRATION (BBA)
SEMESTER – VIII

Subject: Corporate Finance | **Course Code: MGT385**
Full Marks: 100 | **Time: 3 Hrs.**

You are required to answer in your own words as far as applicable. The figures in the margin indicate the full marks.

Section – B: Short Answer Questions (8 × 5 = 40 Marks)

Answer any eight questions:

1. What is agency problem? Discuss the types of agency problem. (2+3)
2. The Buddha Airlines Corporation needs to raise Rs 500,000 for one year to supply working capital for a new store. Buddha Air buys from its suppliers on a term of 3/10, net 90, and it currently pays on the 10^{th} day and takes a discount, but it could forgo discounts, pay on the 90^{th} day, and get the needed Rs 500,000 in the form of costly trade credit. Alternatively, Masson could borrow from its bank on a 12 percent discount interest rate basis. What is the effective annual interest rate of the lower-cost source? (5)
3. Alpha Company currently has 200000 shares of stock outstanding that sell for Rs 220 per share. Assuming no market imperfections and tax effects exist. Compute the number of shares outstanding and the market price per share. (2+2+1)
   a. Three for two stock split
   b. 20% stock dividend
   c. Two for five reverse stock split.
4. Om Tamang, owner of Tamang Enterprises, is negotiating with Janata Bank for a Rs 50,000, 1-year loan. Janata Bank has offered Tamang the following alternatives. Calculate the effective annual interest rate for each alternative. Which alternative has the lowest effective annual interest rate?
   a. A 12 percent annual rate on a simple interest loan, with no compensating balance required and interest due at the end of the year.
   b. A 9 percent annual rate on a simple interest loan, with a 20 percent compensating balance required and interest again due at the end of the year.
   c. An 8.75 percent annual rate on a discount loan, with a 15 percent compensating balance.
5. The stock of the Hemja Treking Company is selling for Rs 150 per share. The company issues rights that allow the holders to subscribe for one additional share of stock at a subscription price of Rs 125 a share for each nine rights held. Compute the theoretical value of the following:
   a. A right when the stock is selling "rights-on"
   b. One share of stock when it goes "ex-rights"
   c. A right when the stock sells "ex-rights" and the actual market price goes to Rs 143 per share
6. What do you mean by common stock? Explain the rights of common stockholders.
7. Surya Traders just borrowed Rs 450,000 from NMB bank. The loan is to be repaid in equal installments at the end of each year of the next 5 years and the interest rate is 10 percent. Prepare an amortization schedule. (5)

8. The Venus company expects to generate the following net income during the next 3 years. The company currently has 100,000 shares outstanding.

Year	Net income
1	900000
2	800000
3	200000

a. Determine earning per share in each year. (2)

b. Determine total dividend and dividend per share if a dividend payout ratio of 60 percent is maintained. (2)

c. Determine dividend per share if the company declares a Rs 2 regular dividend per share and an extra dividend of 20 percent of earning per share is provided. (1)

9. Write short notes on any two topics: (2.5+2.5)
   a. Corporate social responsibility
   b. Operating lease and financing lease
   c. Commercial paper

10. Define the concept of dividend policy. Explain the dividend payment procedure. (2+3)

Section – C: Long Answer Questions (3× 10 = 30 Marks)

Answer any three questions:

11. Karnali Company can lease equipment for five years, making annual lease payments of Rs 4,095 per year at the end of each year, or they can buy the equipment for Rs 12,500. At the end of five years, the equipment will have no salvage value. The firm's cost of capital is 12 percent, and before tax cost of debt is 10 percent. The company uses straight-line depreciation and has a 40 percent tax rate.
   a. Analyze whether the company should lease or buy. (2)
   b. Use the after-tax cost of debt as a discount factor and obtain the result using schedules (8)

12. Nike Sporting Inc. is prepared to report the following income statement (shown in thousands of dollars) for the year 2016.

Sales	Rs 15,200
Operating costs, including depreciation	11,900
EBIT	3,300
Interest	300
EBT	3,000
Taxes (40 percent)	1,200
Net income	1,800

Prior to reporting this income statement, the company wants to determine its annual dividend. The company has 500,000 shares of stock outstanding, and its stock trades at Rs 48 per share.

a. The company had a 40 percent dividend payout ratio in 2015. If Nike wants to maintain this payout ratio in 2016, what will be its per-share dividend in 2016? (3)

b. If the company maintains this 40 percent payout ratio, what will be the current dividend yield on the company's stock? (2)

c. The company reported net income of Rs 1.5 million in 2015. Assume that the number of shares outstanding has remained constant. What was the company's per-share dividend in 2015? (3)

d. As an alternative to maintaining the same dividend payout ratio, Nike is considering maintaining the same per-share dividend in 2016 that it paid in 2015. If it chooses this policy, what will be the company's dividend payout ratio in 2016? (2)

13. Acer Corporation wishes to borrow Rs 100,000 for one year. It has the following alternatives available to it.

a. An 8 percent loan on a discount basis with a 20 percent compensating balance. (3)

b. A 9 percent loan on a discount basis with a 10 percent compensating balance. (2)

c. A 10.5 percent loan on a collect basis with no compensating balance requirement. (3)

d. Which alternative should the Acer Corporation choose if it is concerned with the effective interest rate? (2)

14. Delta Company had the following balance sheet at the end of 2018:

Delta Company Balance Sheet, December 31, 2018

Assets	Amount (Rs)	Liabilities and Capital	Amount (Rs)
Current Assets	850,000	Account payable	180,000
		Notes Payable	210,000
		Long-term debt	500,000
Fixed Assets	1150,000	Common stock (200,000 authorized, 80,000 shares outstanding @ Rs 10 par)	800,000
		Retained earnings	310,000
Total Assets	2,000,000	Total Liabilities and equity	2.000,000

a. What is the book value per share of Delta Company's common stock? (5)

b. Suppose the firm sold the remaining authorized shares and netted Rs 15 per share from the sales. Prepare a new balance sheet showing the amount paid in capital (share premium) after the sales of shares. (5)

c. What would be the book value per share after the sale of the new share? (5)

15. What are the actions that need to be taken by financial managers to maximize shareholder wealth? Explain briefly (10)

Section – D: Case Study (15 Marks)

16. The Sungava Rose Water Company expects with some degree of certainty to generate the following net income and to have the following capital expenditures during the next five years (in thousands of rupees):

Year	1	2	3	4	5
Net income	Rs 2,000	Rs 1,500	Rs 2,500	Rs 2,300	Rs 1,800
Capital expenditures	Rs 1,000	Rs 1,500	Rs 2,000	Rs1,500	Rs 2,000

The company currently has 1 million shares of common stock outstanding and pays annual dividends of Re1 per share.

a. Determine dividends per share and external financing required in each year if dividend policy is treated as a residual decision. (4)

b. Determine the amounts of external financing that will be necessary in each year if the present annual dividend per share is maintained. (4)

c. Determine dividends per share and the amounts of external financing that will be necessary if a dividend-payout ratio of 50 percent is maintained. (4)

d. Under which of the three dividend policies are aggregate dividends (total dividends over five years) maximized? External required financing (total financing over five years) minimized? (3)