

Mid-West University  
**Examinations Management Office**  
Surkhet, Nepal  
End-Semester Examinations-2081  
Bachelor of Business Studies (BBS)  
Semester - VIII

Subject: Corporate Finance  
Full Marks: 60 Pass Marks: 30

Course Code: FIN 485  
Time: 3:00 Hours

*You are required to answer in your own words as far as applicable. Figures in the margins indicate full marks.*

**SECTION A: VERY SHORT ANSWER QUESTIONS (10 X 1 = 10 MARKS)**

Answer **ALL** the questions.

1. Mention the major responsibilities of financial manager.
2. Write the meaning of loan amortization schedule.
3. Define financial lease.
4. What do you mean by preemptive right of common stockholders?
5. A Company's common stock is priced at Rs 150 a share on the market. Notice is given that stockholders can purchase one new share at a price Rs 100 for every four shares held. What is the value of right?
6. What is sinking fund?
7. What do you mean by treasury bond?
8. Define repurchase of stock.
9. Write the meaning of indirect quotation of exchange rate.
10. What do you mean by purchasing power parity?

**SECTION B: SHORT ANSWER QUESTIONS (3 X 3 = 9 MARKS)**

Answer any **THREE** questions.

11. What do you mean by corporate finance? Explain the importance of corporate finance. [3+5]
12. Write the meaning of preferred stock. Discuss the features of preferred stock. [3+5]
13. a) What do you mean by right offering? [3]  
b) The Udayapur Solar Energy Company, whose stock price is now Rs 660, needs to raise Rs 52 million in common stock. Underwriters have informed the firm's management that they must price the new issue to the public at Rs 630 per share because of signaling effects. The underwriters' compensation will be 4 percent of the issue price, so Udayapur will net Rs 604.80 per share. The firm will also incur expenses in the amount of Rs 485,700. How many shares must the firm sell to net Rs 52 million after underwriting and flotation expenses? [5]
14. Mr. Chottelal Rauniyar's total assets consist of 990 shares of Bishal Bazar Company Limited and Rs 125,000 in cash. Bishal Bazar Company Limited now offers shareholders one additional share at a price of Rs 250 for each 9 shares held. The current market price of the stock is Rs 1500.
  - a. What is the value of each right? [2]
  - b. Prepare statements showing Mr. Rauniyar's total assets after the offering for each of these alternative courses of action.
    - i) He exercise all his rights. [2]
    - ii) He sells 630 rights and exercises 360 rights. [2]
    - iii) He neither sells nor exercises the rights. [2]

15. (a) The exchange rate between USD and French France (FF) is FF 4.97 per USD and the exchange rate between USD and British Pound is £ 1 = USD 1.60. What is the exchange rate between French France (FF) and British Pound (£)? [4]
- (b) A laptop costs \$ 6,500 in the United States. The same laptop costs 5,450 euro. If purchasing power parity holds, what is the spot exchange rate between the euro and dollar? [4]

**SECTION C: LONG ANSWER QUESTIONS (2 X 13 = 26 MARKS)**

Answer any TWO questions.

16. Define Multinational Corporation. Explain the reasons for being a Multinational Corporation. [5+8]
17. Rara Pharmaceuticals Company wishes to acquire an automatic packing machine that costs Rs 188,800. The machine can be financed by bank with 10 percent interest and annual installment of loan will be paid in advance. The Rara Pharmaceuticals Company intends to operate the equipment for 5 years, at which time it will need to be replaced. However, it is expected to have a salvage value of Rs 22,220 at the end of 5<sup>th</sup> year. The machine will be depreciated on a straight line basis (Rs 37,760 per year) over the 5 year, and Rara Pharmaceuticals Company is in 30 percent tax bracket. Alternatively Rara Pharmaceuticals Company can lease the packing machine with annual advance lease payment of Rs 39,990. Should Rara Pharmaceuticals Company purchase or lease the packing machine? [13]
18. The Shreethan Oil Corporations 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 3,500	Rs 4500	Rs 3,550	Rs 5,100	Rs 2,880
Capital expenditures	Rs 1,800	Rs 4500	Rs 3,880	Rs 3,400	Rs 3,640

The company currently has 1 million shares of common stock outstanding and pays annual dividends of Rs1 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. [1]

**THE END**