

MID-WESTERN UNIVERSITY
EXAMINATIONS MANAGEMENT OFFICE
FINAL EXAMINATION: 2076
BACHELOR OF BUSINESS STUDIES (BBS)
SEMESTER - VIII

Subject: Corporate Finance
Full Marks: 100

Course Code: FIN 385
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 2 = 20 MARKS)

Answer **ALL** questions.

- Q1. What do you mean by corporate finance?
Q2. Write the meaning of loan amortization schedule.
Q3. Mention the features of preferred stock.
Q4. Annapurna Trekking Company borrows Rs. 160,000 at 10% and agrees to make equal annual payment at the beginning of each year over four years. What is the annual installment of this loan?
Q5. Mention the rights of common stockholders.
Q6. What are the methods of selling securities?
Q7. What is sinking fund?
Q8. Mention the dividend payment procedure.
Q9. What do you mean by direct and indirect quotation?
Q10. Why firm repurchase their common stocks?

SECTION B: SHORT ANSWER QUESTIONS (6 X 8 = 48 MARKS)

Answer any **SIX** questions.

- Q11. What do you mean by the agency problem between shareholder verses managers? Explain. (8)
Q12. Write the meaning of leasing. Explain its types. (2+6)
Q13. Explain the responsibilities of financial manager. (8)
Q14. In 2015 the Birendranagar Wool House Company paid dividends totaling Rs 1125,000. For the past ten years, earnings have grown at a constant rate of 10 percent. After-tax income was Rs 3750,000 for 2015. However, in 2016, earnings were Rs 6750,000 with investment of Rs 4000,000. It is predicted that Birendranagar Wool House Company will not be able to maintain this higher level of earnings and will return to previous 10 percent growth rate. Calculate dividends for 2016 if the Birendranagar Wool House Company follows each of the following policies.
a. Its dividend payment is stable and growing.
b. It continues that 2015 dividend payout ratio.
c. It usages a pure residual dividend policy (40 percent of the Rs 4000,000 investment was financed with debt) (2+3+3)
Q15. What do you mean by debenture? Explain its types. (2+6)
Q16. What are the factors that affect the dividend policies? Explain. (8)
Q17. The Bajra Textile Company's shareholders' equity account (book value) as of December 31, 2015, is as follows:
Common stock (Rs 100 par value; 50,000 shares) Rs 5,000,000
Additional paid-in capital 7,000,000
Retained earnings 25,000,000
Total shareholders' equity Rs 37,000,000
Currently, Bajra is under pressure from its shareholders to pay some dividends. Bajra's cash balance is Rs 800,000, all of which is needed for transactions purposes. The stock is trading for Rs 380 a share.
a. Reformulate the shareholders' equity account if the company pays a 25 percent stock dividend.
b. Reformulate the shareholders' equity account if the company declares a 5-for-4 stock split. (4+4)
Q18. Assume the following quotes:
Japanese Yen Yen 130.15 per dollar
Mexican Peso Peso 11.25 per dollar
a. Find the cross rate of Yen per peso.

- b. If Mexican importer has to import Nissan Car from Japan that costs in total Yen 235,000; what is the cost to him in his home currency?

(4+4)

SECTION C: LONG ANSWER QUESTIONS (2 X 16 = 32 MARKS)

Answer any **TWO** questions.

- Q19. Bulbule Color Lab is trying to decide between leasing and buying a new Printing Plant. The Bulbule Color Lab can lease the equipment for five years, making annual lease payments of Rs 35,750 per year or Bulbule Color Lab can buy the equipment for Rs. 165,000. At the end of the fifth year, the equipment will have salvage value of Rs 15,000. The firms cost of capital is 10 percent with before tax cost of debt of 8 percent. The company uses straight-line depreciation and has a 50 percent tax rate. Using schedules, suggest the appropriate alternative to the company. Use the after-tax cost of debt as the discount factor.

(16)

- Q20. Mr. H. B. Koirala's total assets consist of 850 shares of Sanima Bank Limited and Rs 38,000 in cash. Sanima Bank Limited now offers shareholders one additional share at a price of Rs 200 for each five shares held. The current market price of the stock is Rs 380.

- a) What is the value of each right?
b) Prepare statements showing Mr. H. B. Koirala's total assets after the offering for each of these alternative courses of action.
- He exercises all his rights.
 - He sells all his rights.
 - He sells 600 rights and exercises 250 rights.
 - He neither sells nor exercises the rights.

(2+3.5x4)

- Q21. What do you mean by multinational corporations? Describe the reasons for growth of multinational corporations.

(4+12)

