

MID-WEST UNIVERSITY
GRADUATE SCHOOL OF MANAGEMENT
CHANCE EXAMINATION: 2079
BACHELOR OF BUSINESS STUDIES (BBS)
SEMESTER – VIII

Subject: Corporate Finance
Full Marks: 60

Course Code: FIN 385
Time: 3 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** questions.

- Q1. Define Corporate Finance.
- Q2. Who is financial manager?
- Q3. Mention the features of term loan?
- Q4. What do you mean by right offering?
- Q5. Write the feature of preferred stock.
- Q6. Define call provision?
- Q7. What is stock dividend?
- Q8. Mention the methods for repurchase of stock?
- Q9. What do you mean by exchange rate?
- Q10. Write the meaning of indirect quotation.

SECTION B: SHORT ANSWER QUESTIONS (3 X 8 = 24 MARKS)

Answer any **Three** questions.

- Q11. What do you mean by the agency problem between shareholder verses managers? Explain. (8)
- Q12. Write the meaning of preferred stock? Explain the features of preferred stock. (8)
- Q13. What do you mean by common stock? What are the rights of common stockholders? (3+5)
- Q14. a) The stock of Bherai Hydro Company is selling for Rs 50 per share. The company then issues to subscribe to one new share at Rs 40 for each four rights held.
 - (i) What is the theoretical value of right when the stock is selling rights-on? (2)
 - (ii) What is the theoretical value of one share of stock when it goes ex- rights? (2)b) Suppose the Japanese yen exchange rate is ¥ 120.87 = \$ 1 and the British pound exchange rate is £ 1 = \$ 1.5398. What is the cross rate in terms of yen per pound? (4)
- Q15. Mustang Motors Corporation repurchased 1 million of 14 million shares outstanding at Rs 98. Immediately, before the announcement, market price per share was Rs 91.
 - (i) Was the offer price by the company the correct repurchase price?
 - (ii) After the repurchase, share price went to Rs 105. What would explain this rise if there were no other information concerning the company of stock in general?

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

Answer any **TWO** questions.

- Q16. What do you mean by Multinational Corporation? Explain the advantages and disadvantages of Multinational Corporation? (6+8)
- Q17. A Company is trying to decide between leasing and buying a new equipment. The company can lease the equipment for five years, making annual payments of Rs 16,378 per year or they can buy the equipment for Rs 50,000. At the end of the fifth year, the equipment will have salvage value of Rs 10,000. 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. (13)
- Q18. In 2020 the Karnali Mart Corporation 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 2020. However, in 2021, earnings

were Rs 6750,000 with investment of Rs 5000,000. It is predicted that Surkhet Bricks Corporation will not be able to maintain this higher level of earnings and will return to previous 10 percent growth rate. Calculate dividends for 2021 if the Karnali Mart Corporation follows each of the following policies.

- (i) Its dividend payment is stable and growing. (3)
- (ii) It continues that 2020 dividend payout ratio. (3)
- (iii) It usages a pure residual dividend policy (30 percent of the Rs 5000,000 investment was financed with debt) (3)
- (iv) The investment in 2021 is financed 90 percent with retained earnings and 10 percent with debt. Any earnings not invested are paid out as dividends. (4)

