

Mid-West University  
Examinations Management Office  
Surkhet, Nepal  
End-Semester Examinations-2080  
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 managerial actions to maximize shareholders' wealth.
2. Write the meaning of loan amortization schedule.
3. Define operating lease.
4. What is shareholder's equity account?
5. Mention the functions of investment bankers.
6. What is treasury bond?
7. Mention the dividend payment procedure.
8. Define reverse stock split.
9. Write the meaning of direct quotation of exchange rate.
10. What is spot rate?

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

Answer any **THREE** questions.

11. What do you mean by corporate social responsibility (CSR)? Explain the CSR practice in Nepal. [3+5]
12. Write the meaning of bond. Explain the various types of long-term debt instruments. [3+5]
13. Ramaroshan Hydro Power Company has 2.4 million shares of common stock outstanding, and the present market price per share is Rs 36. Its equity capitalization is as follows: [2x4]

Common stock (Rs 2.00 par; 2,400,000 shares)	Rs 4,800,000
Additional paid-in capital	5,900,000
Retained earnings	87,300,000
Total shareholders' equity	<u>Rs 98,000,000</u>

- a. If the company declared a 25 percent stock dividend, what would happen to these accounts?
  - b. If, instead, the company declared a 3-for-2 stock split, what would happen to the accounts?
  - c. What would happen if there were a reverse stock split of 1 for 4?
14. In 2021 the Gangamala Bakery Industry paid dividends totaling Rs 1620,000. For the past eight years, earnings have grown at a constant rate of 10 percent. After-tax income was Rs 4050,000 for 2021. However, in 2022, earnings were Rs 7750,000 with investment of Rs 6500,000. It is predicted that Gangamala Bakery Industry will not be able to maintain this higher level of earnings and will return to the previous 10 percent growth rate. Calculate the dividends for 2022 if the Gangamala Bakery Industry follows each of the following policies. [2x4]
- a. Its dividend payment is stable and growing.
  - b. It continues that 2021 is a dividend payout ratio.
  - c. It usages a pure residual dividend policy (40 percent of the Rs 6500,000 investment was financed with debt)

- d. The investment in 2022 is financed 75 percent with retained earnings and 25 percent with debt. Any earnings not invested are paid out as dividends. [3]
15. (a) What do you mean by repurchase of stock? [3]
- (b) Suppose the Canadian dollar exchange rate is  $CD\ 2.4410 = £\ 1$  and Japanese yen exchange rate is  $¥\ 1 = £\ 0.00537$ . What is the cross rate in terms of the Canadian dollar per yen? [5]

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

Answer any TWO questions.

16. Define Multinational Corporation. Explain its features. Explain the advantages and disadvantages of Multinational Corporation. [4+6+3]
17. Rara Agro Venture Company can lease equipment for five years, making annual lease payments of Rs 45,140 per year at the end of each year or they can buy the equipment for Rs 212,500. At the end of five years, the equipment will have no salvage value. The firm's cost of capital is 12 percent and before the tax cost of debt is 10 percent. The company uses straight-line depreciation and has a 40 percent tax rate.
- Analyze whether the Rara Agro Venture Company should lease or buy. Use the after-tax cost of debt as discount factor and obtain the result using schedules. [13]
18. Mrs. G. Panta's total assets consist of 1420 shares of Shivan Cement Company and Rs 230,000 in cash. Shivan Cement Company now offers shareholders one additional share at a price of Rs 150 for each four shares held. The current market price of the stock is Rs 550. [3+2.5x4]
- What is the value of each right?
  - Prepare the statements showing Mrs. G. Panta's total assets after the offering for each of these alternative courses of action.
    - She exercises all her rights.
    - She sells all her rights.
    - She sells 900 rights and exercises 520 rights.
    - She neither sells nor does exercise the rights.

THE END