

TRIBHUVAN UNIVERSITY

2081

B.B.S. (4 Yrs. Prog.) / IV Year / MGMT**Fundamentals of Corporate Finance****(FIN- 250) (New Course)****Full Marks: 100****Time: 3 hrs.**

Candidates are required to give their answers in their own words as far as practicable. The figures in the margin indicate full marks.

Group "A"**Brief Answer Questions**

Attempt ALL questions

[10×2=20]

1. Write the meaning of corporate finance.
2. What are the key features of operating lease?
3. What do you mean by optimal capital structure?
4. Write about the importance of financial plan.
5. Write the meaning of cumulative preferred stock.
6. List out two major reasons for going global market.
7. Why do firms issue convertible bonds?
8. Define the term "purchasing power parity"
9. Star Traders buys under terms of $\frac{1}{10}$ net 40. Star Trader does not take discount and pays on 50th day. What is the annual percentage cost of stretching accounts payable? Assume 360 days in a year.
10. Bagmati Company has 400,000 shares outstanding and the firm's charter provides for a cumulative voting procedure. The company has seven directors. What is the minimum number of shares needed to ensure the election of one director?

(1)

Group "B"**Descriptive Answer Questions**

Attempt any FIVE questions.

[5×10=50]

11. "A financial manager should make decisions that maximize shareholder wealth." In the light of this statement, what managerial actions a financial manager should take to maximize shareholder wealth? Explain.
12. What are advantages and disadvantages of long term bonds as a source of long-term financing? Explain.
13. Delta Company can lease equipment for three years, making annual payments of Rs 300,000 per year at the end of each year or they can buy the equipment for Rs 600,000. At the end of third years, the equipment will have salvage value Rs 120,000 which is both book salvage value and cash salvage value. The firm's before tax cost of debt is 10 percent. The company uses straight-line depreciation and has a 40 percent tax rate.
 - a. Calculate cost of leasing.
 - b. Calculate cost of purchasing. Should the machine be leased or purchased?
14. Hi-Tech Ltd. has warrants outstanding that allow the holder to purchase 3 shares of stock for a total of Rs 60 for each warrant. Currently, the market price per share of Hi-Tech is Rs 18. Investors hold the following probabilistic beliefs about the stock 6 months hence:

Market price per share	Rs 16	Rs 18	Rs 20	Rs 22	Rs 24
Probability	0.15	0.20	0.30	0.20	0.15

- a. What is the present theoretical value of the warrant?
- b. What is the expected value of stock price 6 months hence?
- c. What is the theoretical value of the warrant 6 months hence?
- d. Would you expect the present market price of the warrant to equal its theoretical value? If not, why not?

(2)

P.T.O.

15. Koshi Company's balance sheet is given below:

Balance Sheet as of December 31, 2024

Cash	Rs. 100,000	Accounts payable	Rs. 50,000
Account receivable	200,000	Accruals	150,000
Inventory	100,000		
Total current assets	Rs. 400,000	Total current liabilities	Rs. 200,000
Net fixed assets	600,000	Common stock	500,000
		Retained earnings	300,000
Total assets	Rs. 1,000,000	Total liabilities and equity	Rs. 1,000,000

Sales are expected to increase from Rs 2,000,000 in 2024 to Rs 3,000,000 in 2025. Firm's after-tax profit margin is forecasted to be 10 percent and its payout ratio will be 80 percent.

- What is the firm's additional fund needed for the year 2025 if company is running at full capacity? Use AFN equation.
- Prepare Koshi Company's pro-forma balance sheet of as of December 31, 2025.

[4+6]

16. (a) How does multinational financial management differ from domestic financial management? [5]

(b) The nominal interest rate on six-month T-bills denominated in NR is 12 percent, while the nominal interest rate on six-month default free Japanese bonds is 6 percent. In the spot exchange market, one Yen equals NR 0.90. If interest rate parity holds.

- What is the six-month forward exchange rate?
- What is the premium on forward Yen?

(3)

Group "C"

Analytical Answer Questions

[2×15=30]

Attempt any TWO questions.

17. Explain the concept and types of mergers. Also discuss the rationales behind the mergers and acquisitions. [6+9]

18. The Himal Cement Company has planned to raise long-term fund. Recently it has announced a rights offer to raise Rs 50 million for a new plant. The stock has Rs 100 par value and currently sells for Rs 250 per share, and there are 1,000,000 shares outstanding.

- Why do companies prefer rights offering instead of further public offering?
- If the subscription price is set at Rs 100 per share, how many shares must be sold? How many rights will it take to buy one share?
- What is the value of a right? What is the ex-rights price?
- Show the wealth of Mohan Thapa, a shareholder with 2,000 shares and Rs 100,000 cash balance before the offering.
- Show Mr. Thapa's wealth after rights offering assuming that the exercises all his rights.

[5×3]

19. The Kathmandu Electronic Company intends to borrow Rs 800,000 to support its short-term financing requirements during the next year. The financing alternatives offered by the bank include:

Alternative 1: A discount interest loan with a simple interest of 15 percent and no compensating balance requirement.

Alternative 2: A 14 percent simple interest loan that has a 15 percent compensating balance requirement.

Alternative 3: Rs 1 million revolving line of credit with simple interest of 12 percent paid on the amount borrowed and a 1 percent commitment fee.

- Compute the effective cost (rate) of each financing alternative assuming Kathmandu borrows Rs 800,000. Which alternative should it use?
- Discuss the factors other than cost to be considered while choosing a bank for short-term loan.

[12+3]

(4)