

FAR WESTERN UNIVERSITY
Faculty of Management

Course Title: **Corporate Finance II**
Course Code: **MGT 353**
Nature of course: Theory
Semester: Fifth
Level: BBA

Total Marks: 100
Pass Marks: 45
Time per period: 1 hr.
Total periods: 45
Credit hours: 3

COURSE OVERVIEW:

The Corporate Finance II is an extension of corporate finance I and focuses at introducing the students some advanced aspects of corporate finance which facilitates the decision making domain pertaining to financing decisions. This course enables the students to apply relevant principles and approaches in solving problems of corporate finance. Specific topics include corporate governance, Valuation, short term financing, long term financing and merger and acquisition.

LEARNING OBJECTIVES:

A. The general objective of the course is as follows:

To understand the decisions to be taken by financial managers of business firms regarding short term and long term financial decision and some special topics like corporate governance along with MA.

B. Specific Objectives and Contents

Specific Objectives	Contents
<ul style="list-style-type: none"> • Understand the important features of the four main types of • Understand the three main types of decisions a financial manager makes • Understand the financial market • Acquaint students to understand the corporate governance in corporations and its practice in Nepalese firms. 	<p>Unit I Corporate Finance and Corporate Governance (3)</p> <p>1.1. Forms of business organizations 1.2. Investment and financing decisions 1.3. Financial markets and institutions 1.3.1. Financial institutions 1.3.2. Financial market 1.4. Corporate Governance 1.4.1. Defining corporate governance 1.4.2. Importance of Corporate Governance 1.4.3. Roles and responsibilities of CEO, Directors, and Chairman; 1.4.4. Corporate Governance Practice in Nepal</p>
<ul style="list-style-type: none"> • Understand the concept of interest rates and ways of determining interest rates • Understand the theories of interest rates 	<p>Unit II: Interest Rates and Security Valuation (4)</p> <p>2.1. Interest rates 2.1.1. Determination of interest rate 2.1.2. Term structure of interest rates and theories of term structures 2.1.3. Real and nominal interest rates.</p>

<ul style="list-style-type: none"> • Compute the interest rate using expectation theory. 	
<ul style="list-style-type: none"> • Understand the concept of short - term financing • Describe the sources of short - term financing • Compute cost of sources of Short term Financing 	<p>Unit III: Short Term Financing (8)</p> <p>3.1. Concept of short term financing, 3.2. Sources of short term financing: 3.2.1. Trade credit 3.2.2. Short term bank loans 3.2.3. Commercial paper, 3.2.4. Inventory financing 3.2.5. Account receivable financing.</p>
<ul style="list-style-type: none"> • Understand the sources of long term financing • Describe rights and privileges available to Common Stockholders • Understand how rights are issued to existing shareholders and how to value those rights. • Explain the innovation in bond and bond covenants • Evaluate Bond refunding decision • Understand the hybrid securities, their features and types. 	<p>Unit IV: Long-Term Financing (8)</p> <p>4.1. common Stock Financing 4.1.2. Rights and privileges of common stock 4.1.3. Merits and demerits of common stock financing 4.1.4. Methods of issue 4.1.4.1. Private placement 4.1.4.2. Public offering 4.1.4.3. Rights offering 4.1.4.3.1. Rights issue procedure 4.1.4.3.2. Valuation of Rights 4.1.4.3.3. Effect of right offering on stockholders' wealth 4.2. Corporate debt 4.2.1. Bond 4.2.2. Innovation in the debt market 4.3.3. Bond Covenants 4.3.4. Types of Covenants 4.3.5. Advantages of Covenants 4.2.6. Bond refunding decision 4.3. Hybrid Financing: 4.3.1. Warrants and convertibles 4.3.2. Use of Warrants in Financing 4.3.3. Problems with Warrant Issues 4.3.4. General Features of Convertibles 4.3.5. Reasons for issuing convertibles and warrants 4.3.6. Conversion value, Straight bond value and Market value of convertible bond 4.3.7. Effect of conversion on earning dilution</p>
<ul style="list-style-type: none"> • Acquaint student to understand the venture capital market and its role in the financing • Understand how securities are sold to the public and the role of investment banks in the process. • Explain initial public offerings and some of the costs of going public. 	<p>UNIT V: VENTURE CAPITAL, IPOS AND SECOND OFFERING (4)</p> <p>5.1. Venture Capital 5.1.1. Meaning of venture capital 5.1.2. Features of venture capital 5.1.3. Choosing a venture capitalist 5.2. Selling Securities to the Public (IPO) 5.2.1. The Basic Procedure</p>

<ul style="list-style-type: none"> • Understand the process and role of investment banking. 	5.2.2. The underwriters 5.2.3. Types of underwriting 5.2.4. Listing of securities 5.3. The private placement 5.4. The Costs of Issuing Securities 5.5. Investment Banking and Their Role
<ul style="list-style-type: none"> • Understand the different kinds of leases and some of the reasons for their use. • Compute the net present value of a long-term lease. • Evaluate lease on behalf of lessee and lessor 	UNIT VI: LEASING (8) 6.1. Concept of leasing 6.2. Reasons for leasing 6.3. Forms of leasing 6.4. Advantages of leasing 6.5. Lease rental rate 6.6. Lease-versus-Purchase Decision 6.6.1. Evaluation by the Lessee 6.6.2. Evaluation by the Lessor
<ul style="list-style-type: none"> • Understand the concept and motives of merger. • Estimate the gains and costs of mergers to the acquiring firm. • Understand the merger regulation in Nepal 	UNIT VII: MERGER AND ACQUISITION (5) 7.1. Methods Merger 7.2.1. Motives for merger 7.2.2. Merger Negotiation Process 7.2.3. Evaluating merger 7.2.4. Valuing the Target Firm 7.2.5. Merger financed by cash 7.2.6. Merger financed by stock 7.2.7. The benefit and cost of merger 7.2.8.. Merger Regulation in Nepal

Basic Books

1. Brealey R.A; Myers S. C; Principles of Corporate Finance. Tata McGraw Hill, New Delhi.
2. Ross, Stephen A., Westerfield, Randolph, and Jeffrey Jaffe, Corporate Finance, Tata McGraw Hill
3. Kohn, Meir: Financial Institutions and Markets