

Mid-West University  
**Examinations Management Office**  
Surkhet, Nepal  
End-Semester Examination-2081  
Bachelor of Business Studies (BBS)  
Semester - IV

Subject: Introduction to Finance-II  
Full Marks: 60 Pass Marks: 30

Course Code: MGMT 441/341  
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. Differentiate between line of credit and revolving credit agreement.
2. Find out the annual percentage cost of the credit term 2/10, net 40.
3. List out the advantages of short term financing.
4. Find the value of 10 percent, 5 years Rs 1,000 par value bonds at the 12 percent required rate of return.
5. Write the formula of portfolio risk and return in three assets case.
6. If the sales are expected to increase by 20 percent from the current 10,000 units sales position, what would be the resulting operating profit figure at the DOL of 2 times?
7. What is total capitalization?
8. Briefly clarify the pecking order theory.
9. Calculate the growth rate if the return on equity of a stock 20% and the dividend payout ratio is 60%.
10. What do you mean by indifference EBIT?

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

Answer any **THREE** questions.

11. Define the term leverage and highlight the types of leverage. [2+6]
12. Rapti Textile company is experiencing a period of rapid growth. Earnings and dividends are expected to grow at 15 percent during the next 4 years, and at 6 percent constant rate thereafter. Company's last dividend was Rs 10, and the required rate of return on the stock is 12 percent. Calculate: [4+4]
  - a. Expected dividends for each of the next 4 years.
  - b. Value of the stock today.
13. ABC Company is negotiating with the Citizens Bank for Rs 800,000 one year loan. Citizen has offered ABC Company with the following three alternatives: [2+2+2+2]
  - a. 10% loan on a collect basis with no requirement of compensating balance.
  - b. 8% discount loan, with 25% compensating balance requirement.
  - c. 9% interest rate, 15% compensating balance and the loan is discounted.If you are the financial manager of ABC company, which alternative would you select? Why?
14. Fox company earned profit after tax of Rs 500,000 in the preceding year. The company is in 40% tax bracket, it had no debt outstanding at year end and had 200,000 shares of common stocks outstanding. At the beginning of current year, it finds that it needs to borrow Rs 500,000 at an interest rate of 11 percent to expand its operations. [4+4]
  - a. What are earnings per share before and after financing if EBIT stays the same?
  - b. What are the absolute and percentage increase in EPS if EBIT increases by 50 percent?
15. Define the term bond. Highlight the features of bond. [2+6]

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

Answer any *TWO* questions.

16. Stock A and B have the following probability distributions of expected future returns:

Probability	0.1	0.2	0.4	0.2	0.1
Stock A	-10%	2	12	20	38
Stock B	-35%	0	20	25	45

- a. Calculate the expected return and standard deviation of stock A and B
  - b. If you form a portfolio comprising 80 percent stock A and 20 percent in stock B, calculate the expected return and standard deviation of the portfolio.
17. A 10 year 12% semiannual coupon bond, with a par value of Rs. 1000 may be called in 4 years at a call price of Rs. 1060. The bond is sold at Rs. 1100. [5+1+2+5]
- a. What is the bond's yield to maturity?
  - b. What is the bond's current yield?
  - c. What is the bond's capital gain or loss or loss yield?
  - d. What is the bond's yield to call?
18. Elucidate the concept of capital structure. Highlight the considerations of capital structure planning and the assumptions of theories of capital structure. [3+5+5]

**THE END**