MID-WESTERN UNIVERSITY
EXAMINATIONS MANAGEMENT OFFICE
MAKE-UP EXAMINATION: 2076
BACHELOR OF BUSINESS STUDIES (BBS)
SEMESTER – IV

Subject: Introduction to Finance - II	Course Code: MGMT 341
Full Marks: 100	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 2 =20 MARKS)

*Answer **ALL** questions.*

Q1. What are the advantages of short term financing?

Q2. Surya trading buys under terms of 2/15 net 60. Compute annual percentage cost of Surya traders.

Q3. List the major types of bond.

Q4. A stock that recently paid dividend Rs 40 per share, which is expected to grow at constant rate of 5% per year forever. If cost of equity is 15%. What is the value of stock?

Q5. List out the factors that affect capital structure of a firm.

Q6. An investor invested in 40% in stock X and 60% in stock Y. if X's return is 10% and B's return is 12%. What would be the investor's portfolio return?

Q7. You are given the following information :
XYZ Company issued 12% Rs 1000 par bond for 5 years if discount rate is 8% calculate the present value of bond.

Q8. Explain the meaning of commercial paper.

Q9. Compute the value of perpetual preferred stock which has Rs 100 par value Rs 9 dividend and 12% cost of capital.

Q10. State the meaning of BEP and also write the formula of BEP.

SECTION B: SHORT ANSWER QUESTIONS (6 X 8 = 48 MARKS)

*Answer any **SIX** questions.*

Q11. B and B company is negotiating with the citizens bank for Rs 500,000 one year loan. Citizen has offered B and B company with the following three alternatives: (2+2+4)

a) 15% interest rate no compensating balance and interest due at the end of the year.
b) 13% interest rate, 20% compensating balance and interest due at the end of the year.
c) 11% interest rate, 15% compensating balance and the loan is discounted

Q12. The Maya company has just paid a cash dividend of Rs 5 per share. Investors required a 12% return from investment such as his. If the dividend is expected to grow at constant rate 7 % per year,

a) Calculate the expected dividend until the 4 years (4)
b) What will the stock be worth in five year from now? (4)

Q13. A company manufacture's a single product that is sold through discount house each unit is sold for Rs 25 the fixed cost are Rs 140000 for 30000 units and variable cost are Rs 15 per unit. (4+4)

a) What is the firm's gain or loss at 8000 units and 18000 units?
b) What is the degree of operating leverage at sales of 18000 units?

Q14. What are the features of common stock? Explain in brief. (4+4)

Q15. What is bond ? Explain its features in brief. (2+6)

Q16. Preferred stock is often called hybrid securities. Explain (8)

Q17. Compute the value of following bond. (4+4)

a) 7% coupon Rs 1000 par value perpetual bond, required rate of return is 9%.
b) 10 years zero coupon bonds the required return of the bond is 12%

Q18. Surkhet automobile Company is experiencing a period of rapid growth. Earnings and dividends are expected to grow at a rate of 12% during the next 2 years, and 5% constant rate thereafter. Company's last dividend was Rs 10 and the required rate is 15%. (4+4)

a) Calculate the value of stock today.
b) Calculate the value of stock after year 1.

SECTION C: LONG ANSWER QUESTIONS (2 X 16 = 32 MARKS)

*Answer any **TWO** questions.*

Q19. Stock A and B have the following historical data: (8+8)

Probability	0.2	0.1	0.4	0.2	0.1
Stock A	14%	5%	10%	8%	5%
Stock B	18%	10%	9%	17%	10%

a) Calculate the expected return and stander deviation of stock A and B
b) If you form a portfolio comprising 60 percent stock A and 40 percent in stock B calculate the expected return and standard deviation of the portfolio?

Q20. Kantipur Enterprises has bond outstanding with Rs 1000 face value and 8 years left until maturity. The bond's have 10% annual coupon payment. The current price of these bonds is Rs 1080. The Bond's may called in 4 years at 1050 call price. (8+8)

a) What is the yield to maturity of these bonds?
b) What is the yield to call for these bonds, if it is called in 4 years?

Q21. Chaudhary automobile estimate that it will need an additional Rs 150,000 for the month of April due to the seasonal nature of its business. It has three options available to provide the need funds. (5+5+6)

a) Established a one year line of credit for Rs 150,000 with a commercial bank. The commitment fee would be 1% and the interest charge would be 10% per annum on the used fund. No minimum time on the use of the money.
b) Forgo the April trade discount of 2/10 net 40 on Rs 150,000 of account payable.
c) Issue Rs 150,000 of sixty day commercial paper at a 9% per annum interest rate. Since the funds are only required for only 30 days, the excess funds are invested in 8% per annum marketable securities for the month of May. Total transaction fee on purchasing and selling the marketable securities is 0.5% of the fair market value. Which alternatives result in the lowest cost?

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