

Mid-West University
Examinations Management Office
Surkhet, Nepal
End-Semester Examination-2080
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. List out the sources of short term financing.
2. Find the value of Rs. 1000 par value, zero coupon bond with the maturity period of 10 years and the required rate of return 14%.
3. What do you mean by sinking fund provision?
4. Define the term indifference EBIT.
5. Write the formula of portfolio risk in three assets case.
6. Differentiate between standard deviation and beta.
7. Differentiate between the line of credit and revolving credit agreement.
8. The expected rate return on the market is 13% and the risk-free rate is 6%. Find the required rate of return on a stock that has the beta of 0.7.
9. The return on equity on a stock is 15% and the dividend payout ratio is 60%. Find the growth rate.
10. Find out the annual percentage cost of credit term 3/10 net 60.

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

Answer any **THREE** questions.

11. Elucidate the term bond. State and explain the characteristics of bond. [2+6]
12. You have purchased a bond that matures in 5 years. The bond has a face value of Rs. 1000 and 8 percent annual coupon rate. It has a current yield of 8.21 percent. What is the yield to maturity of bond? [8]
13. Delta Company purchases under the terms of 2/10 net, 40. The annual purchase of company is Rs. 6,400,000. Assume 365 days in a year.
 - a. What is the annual percentage cost and effective percentage cost of its non-free trade credit? [4]
 - b. What is the annual percentage cost and effective percentage cost if the company stretches the payment date to 50 days? [4]
14. Surya Trade link has a DOL of 3 at its current sales level of 20,000 units. The resulting operating profit figure is Rs. 5,000.
 - a. If sales are expected to increase by 30 percent from the current 20,000 units sales position, what would be the resulting operating profit figure?
 - b. At the company's new sales position of 30,000 units, what is the company's new DOL figure? [2+6]
15. Write a short note on (Any two) [4+4]
 - a. Receivable financing
 - b. Static trade off theory
 - c. Peking order theory

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

Answer any TWO questions.

16. Consider the probability distribution of rate of return associated with stock A and B given in the following table: [6+2+4+1]

Probability	Stock A	Stock B
0.4	10%	-10%
0.3	15	20
0.3	20	30

- Calculate the expected return and the standard deviation of stock A and B.
 - What are the covariance and correlation coefficient between the return of Stock A and B?
 - Calculate the portfolio expected return and standard deviation consisting 70 percent fund in Stock A and 30 percent in stock B.
 - Which investment would you prefer. Stock A or stock B or the portfolio? Why?
17. Bheri Textile Company is experiencing a period of rapid growth. Earnings and dividends are expected to grow at a 12 percent during the next two years, at 10 percent in third years, and at 5 percent constant rate thereafter. Company's last dividend was Rs. 10, and the required rate on the stock is 15 percent. [8+2.5+2.5]
- Calculate the value of the stock today.
 - Calculate P_1 and P_2 .
18. Describe short term financing with a suitable example. Highlight the advantages and disadvantages of short term financing in detail. [5+4+4]

THE END