TRIBHUVAN UNIVERSITY

FACULTY OF MANAGEMENT

Office of the Dean

2015

Full Marks: 60

Time: 3 Hrs.

BIM / Sixth Semester / FIN 201: Business Finance

Candidates are required to give their answers in their own words as far as practicable.

Group "A" ***[10 × 1 = 10]***

Indicate whether the following statements are 'True' or 'False'. Support your answer with reason.

1. Business finance deals with raising funds only.
2. A rupee in hand today is worth more than a rupee to be received next year.
3. Yield curve is a graph that shows the relationship between interest rate and maturity periods.
4. If two investments offer the same expected return, most investor would prefer the one with higher standard deviation.
5. Common stock is also called hybrid security.
6. The current market price of XYZ Co's stock is Rs 100, expected year-end dividend is Rs 5 per share and constant growth rate is 7 percent, an investor's required rate of return is 13 percent.
7. A firm has an average inventory of 90 days, an average collection period of 40 days, and an average payment period of 30 days. The firm's operating cycle is 160 days.
8. Short term sources of financing consist of all the liabilities or obligation that are originally scheduled for repayment of one year or less.
9. If the coupon rate of bond is higher than market interest rate, the value of bond will be higher than its par value.
10. Compensating balance increase the effective cost of bank loan.

Group "B"

Short Answer Questions: ***[6 × 5 = 30]***

11. What is the goal of the firms? Why wealth maximization is superior goal for the firm?
12. Interest rates on 4-year Treasury securities are currently 7 percent, while interest rate on 6-year Treasury securities are currently 7.5 percent. If the pure expectation theory is correct, what does the market believe 2- year securities will be yielding 4 years from now?
13. Munal Texttile Company currently pays a dividend (D_0) of Rs 20 per share. This dividend is expected to grow at a 10 percent per year rate for the next three year, after which it is expected to grow at 5 percent per year for the foreseeable future. If you require a 15 percent rate of return on an investment of this type, what price do you expect the stock to sell for at present?
14. ABC Company turns its inventory 6 times each year. It has an average collection period of 45 days and an average payment period of 30 days. The Firm's annual operating cycle investment is Rs 30,00,000. Assume 360 days a year.
    a. Calculate ABC Co.'s cash conversion cycle and the amount of working capital needed to finance its inventory.
    b. What could be done in order to minimize the need of fund as working capital?
15. International Bank ltd. Issues 14 year, Rs 1,000 par value bonds pay 9 percent interest annually.
    a. Determine the value of the bond to you, if required rate of return is 7%.

16. Surya Company is in need of Rs 20,00,000 in cash to finance its current assets requirement. Mr. Y. Treasurer of the company believes that two alternatives are available in raising the funds.

   a. Forego cash discounts on terms of 2/10, net 40.

   b. Borrow on discount basis, from the Bank of Kathmandu at a 15% rate of interest for a period of one year .

   Based an effective annual cost which source of financing is least costly?

Group "C"

Comprehensive answer questions:

Read the following information and answer the questions given below: ***[2 × 10 = 20]***

17. Assume that it is now January 1, 2015. On Jan 1, 2016 you will deposit Rs 1,00,000 into a saving account that pays 5% interest.

   a. If the bank compounds interest annually, how much will you have in your account on Jan 1, 2019?

   b. What would your Jan 1, 2019 balance be if the bank use quarterly compounding rather than annual compounding?

   c. Suppose you deposit the Rs 1,00,000 in 4 payments of Rs 25,000 each on Jan 1 of 2016, 2017 2018 and 2019. How much would have in your account of Jan 1, 2019 bases on 5% annual compounding?

   d. Suppose you deposit 4 payment of Rs 25000 each on Jan 1, 2015 2016, 2017 and 2018. How much would you have in your account on Jan 1, 2019 base on 5% annual compounding.

18. Stocks of P and Q have the following probability distribution of expected future returns:.

Probability	Stock P	Stock Q
0.3	-10%	5%
0.3	10	20
0.4	20	35

   a. What are the expected returns and standard deviation of each stock?

   b. What are the coefficient of variation of each stock?

   c. Which stock is riskier in relative term?

   d. What is the average return for a portfolio consisting 80% of stock P and 20 percent of stock Q?

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