TRIBHUVAN UNIVERSITY
FACULTY OF MANAGEMENT
Office of the Dean
Sept. - Oct. 2018

Full Marks: 60
Pass Marks: 27
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. The investment decision of a firm is concerned with deciding on which financing sources are to be used to finance an investment.
2. If we deposit Rs 1000 today at an annual interest rate of 10 percent, it is compounded to Rs, 1331 at the end of year 3.
3. The risk-free rate is 6%, the expected market return is 10%. If Omega's stock has a beta of 1.5, required rate of return should be 12 percent.
4. When required rate of return is greater than the coupon rate, the bond will sell at premium.
5. Preferred stock is hybrid security.
6. Payback period does not consider entire streams of cash flows.
7. A firm purchases 10,000 units annually. Its ordering cost is Rs 100 per order and carrying cost is Rs 2 per unit. Firm's EOQ should be 1,000 units.
8. Net working capital can be defined as the difference between total assets and current liabilities.
9. Presently a firm is selling at the term 2/10, net 30. Its sales will increase if it sells at the term 3/10, net 50.
10. Depreciation is not shown in cash budget.

Group "B" *[6 × 5 = 30]*

Short Answer Questions:

11. Compare between wealth maximization and profit maximization goals. Which goal would you like to recommend and why?
12. Assume that it is now January 1, 2018. On January 1, 2019, you will deposit Rs 10,000 into a savings account that pays 8 percent.
    a. If the bank compounded interest annually, how much will you have in your account on January 1, 2022?
    b. What would your January 1, 2022, balance be if the bank used quarterly compounding rather than annual compounding?
    c. Suppose you deposited the Rs 10,000 in 4 payments of Rs 2,500 each on January 1 of 2019, 2020, 2021, and 2022. How much would you have in your account on January 1, 2022, based on 8 percent annual compounding?
13. Suppose Gama Company sold an issue of bonds with a 10-year maturity, a Rs 1,000 par value, a 10 percent coupon rate, and semiannual interest payments.

a. Two years after the bonds were issued, the going rate of interest on such bonds fell to 8 percent. At what price would the bonds sell?

b. Suppose that, 2 years after the initial offering, the going interest rate had risen to 12 percent. At what price would the bonds sell?

c. How does value of bond change with the change in market interest rate?

14. Mechi Tea Company has just paid a cash dividend of Rs 20 per share. Dividend is expected to grow at a steady rate 6 percent per year forever. Investors require 16 percent return from investment.

a. Calculate value of stock at present.

b. What is dividend yield for the first year?

c. What will be the stock worth at the end of fourth year? *[3+1+1]*

15. The following information about Hi-Tech Ltd. has been provided to you:

Hi-TechLtd.

Balance Sheet as of December 31, 2017

Assets	Amount	Liabilities and Equity	Amount
Cash	Rs 10,000	Accounts payable	Rs 30,000
Accounts receivable	50,000	Notes payable	20,000
Inventory	60,000	Other current liabilities	15,000
		Long–term debt	85,000
Fixed assets	280,000	Owners' equity	250,000
Total assets	Rs 400,000	Total liabilities and equity	Rs 400,000

Other information:

Sales = Rs 2,000,000

Net profit after tax = Rs 100,000

a. Calculate current ratio and quick ratio and interpret them.

b. Calculate total asset turnover. Do you prefer higher or lower turnover ratio?

c. Calculate net profit margin and return on equity. *[2+1+2]*

16. What do you mean by working capital management? Briefly explain the importance of working capital management.

Group "C"

Comprehensive answer questions:

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

17. Consider the following scenario analysis:

Scenario	Probability	Rate of return	
		Stock A	Stock B
Recession	0.30	5%	30%
Normal economy	0.40	10	20
Boom	0.30	15	10

Calculate the expected rate of return and standard deviation for each stock

a. Calculate portfolio return and standard deviation if equal amount of money is invested in each stock.

b. Would you prefer to hold Stock A or Stock B or Portfolio? Why? *[4+4+2]*

18. Annapurna Environment Company is considering to installing a paper recycle plant. The project will cost Rs 500,000. Annual net cash inflow of the project will be Rs 200,000 for 5 years. Cost of capital is 12 percent.

a. Calculate payback period of the project. Should the company accept this project if the maximum cost recovery time is 3 years?

b. Define net present value (NPV). Calculate NPV of the project. Should the project be accepted?

c. Define internal rate of return (IRR). Calculate IRR of the project. Should the project be accepted? *[3+3+4]*

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