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TRIBHUVAN UNIVERSITY

FACULTY OF MANAGEMENT

Office of the Dean

September 2017

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. The financing decision of a firm is concerned with utilizing funds in fixed assets.
2. Balance sheet shows financial position of a firm.
3. The risk-free rate and expected market return are 5% and 9% respectively. If firm's stock has a beta of 1.5, required rate of return should be 11 percent.
4. Present value of a cash flow decreases when higher discounting rate is used.
5. If we combine perfectly positively correlated assets, we can completely eliminate the risk using minimum variance weight.
6. Depreciation is non-cash operating expenses which is deducted only for tax reporting purpose but it is added back to the net income of the project to determine net cash flow.
7. If projects are mutually exclusive, we can choose all the projects which have positive NPV.
8. If City bank offers 10 percent interest and applies semi-annually compounding, the effective interest rate is 10.25 percent.
9. Non-cash income and non-cash expenditure are not included in cash budget.
10. A firm's current asset and fixed assets are Rs 90,000 and Rs 180,000 respectively. If firm's long-term financing is Rs 200,000 amount of net working capital will be Rs 20,000.

Group "B"

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

11. What is business finance? Describe the role of financial manager.
12. Assume that it is now January 1, 2016. On January 1, 2017, 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, 2020?
    b. What would your January 1, 2020, 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 2017, 2018, 2019, and 2020. How much would you have in your account on January 1, 2020, based on 8 percent annual compounding? *[2+1.5+1.5]*
13. Himalaya Company just issued a bond that pays 10 percent coupon interest, with a Rs 1,000 par value. It matures in 10 years. Investor's required rate of return is 12 percent.
    a. Calculate the value of the bond at present. If bond is trading at Rs 900, would you purchase the bond?
    b. If actual price of bond at present is Rs 850, Calculate approximate yield to maturity? *[3+2]*

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14. Consider the following scenario analysis:

Scenario	Probability	Rate of return	
		Stock M	Stock N
Recession	0.30	-5%	0%
Normal economy	0.40	15	10
Boom	0.30	45	20

a. Calculate expected return for each stock. Which stock is more profitable?

b. Calculate standard deviation and coefficient of variation. Which stock is more risky?

c. Which one stock would you prefer? *[2+2+1]*

15. Hi-Tech Electronic Company has just paid a cash dividend of Rs 20 per share. Dividend is expected to grow at a steady rate 5 percent per year forever. Investors require 15 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 in four year? *[3+1+1]*

16. Zenith Trade Centre expects to sell 10,000 pieces of small pencil cutter this year. The cost of placing an order from its supplier is Rs 500. Each unit costs Rs 100 and carrying costs are 10 percent of the purchase price.

a. What is the economic order quantity?

b. What is the total carrying and ordering inventory cost?

c. At what inventory level should an order be placed?

d. List out the motives for holding cash. *[2+1+1+1]*

Group "C"

Comprehensive answer questions:

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

17. Consider the following industry average and financial statements for Shikhar Company.

Balance Sheet as of December 31, 2016

Accounts payable	Rs 60,000	Cash	Rs 1,04,000
Notes payable	60,000	Account receivables	88,000
Other current liabilities	28,000	Inventories	212,000
Long-term debt	32,000	Net Fixed assets	1,96,000
Common stock	252,000		
Retained earnings	168,000		
Total	**Rs 600,000**	**Total**	**Rs 600,000**

Income Statement for the Year Ended December 31, 2016

Sales revenue	Rs 10,60,000
Less: Cost of goods sold	880,000
Gross profit	Rs 180,000
Less: Operating expenses	114,000
Net income before interest and taxes	Rs 66,000
Less: interest	6,000
Net income before tax	Rs 60,000
Less: Tax @ 50%	30,000
Net income	Rs 30,000

Industry Average Ratios

Current ratio	= 2 times	Fixed assets turnover	= 5.5 times
Debt ratio	= 40%	Total assets turnover	= 2.5 times
Times interest earned	= 6 times	Profit margin	= 3%
Inventory turnover	= 9 times	Return on assets	= 7.5%
		Return on equity	= 12.5%

a. Calculate all those necessary ratios to make a comparison with industry average ratios.

b. Assess the strengths and weaknesses of Shikhar Company.

c. What are the limitations of ratio analysis? *[6+2+2]*

18. Fewa Transportation (Pvt.) Ltd. is considering to run tourist bus from Pokhara to Kathmandu. A tourist bus costs Rs 1,000,000 and it will provide service for 5 years to come. Annual net cash inflows for five years will be as follows:

Year	Cash Flows
0	(Rs 1,000,000)
1	400,000
2	350,000
3	350,000
4	300,000
5	300,000

a. What is the payback period of the project? Should Fewa Transportation (Pvt.) Ltd. run tourist bus from Pokhara to Kathmandu if its maximum cost recovery period is 3 years?

b. The required rate of return of the project is 10 percent. What is the NPV of the project? Should Fewa Transportation (Pvt.) Ltd. run tourist bus service?

c. What is the IRR of the project? Should Fewa Transportation (Pvt.) Ltd. run tourist bus service from Pokhara to Kathmandu on the basis of IRR?

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