MID-WESTERN UNIVERSITY

FACULTY OF MANAGEMENT

FINAL EXAMINATION: 2073

BACHELOR OF BUSINESS ADMINISTRATION (BBA)

SEMESTER – II

Subject: Financial Management - I Course Code: MGMT 324

Full Marks: 100 Time: 3:00 Hours

*You are required to answer in your own words as far as applicable. The figures in the margin indicate full marks.*

**SECTION B: SHORT ANSWER QUESTIONS (8** $×$ **5 = 40 MARKS)**

*Answer any EIGHT questions:*

1. Why do creditors prefer low debt ratios? A company has EBITDA of Rs. 600 million, interest payments of Rs. 60 million, lease payments of Rs. 40 million, and required principal payments (due this year) of Rs. 30 million. What is EBITDA ratio? [3+2]
2. Describe annuity and its types with example. Why should anybody rather receive an annuity due for Rs. 50,000 per year for 10 years than an otherwise similar ordinary annuity? [3+2]
3. List down the different types of interest rates and describe each of them in brief. Would you rather invest in an account that pays 7% with annual compounding or 7% with monthly compounding? Would you rather borrow at 7% and make annual or monthly payments? Why? [3+2]
4. Define bond with its types. Why some bonds do also has a provision of sinking fund? [3+2]
5. Find the value of following bonds assuming that required rate of return is 14 percent. [2.5+2.5]
6. 8 percent, Rs. 1000 par value of bonds.
7. Rs. 1000 par, 8 percent coupon bonds, with maturity period of 10 years.
8. Define common stock. List the different features of common stock and describe each of them in 2-3 sentences. [2+3]
9. Write any three differences between stock and bond. If you have to choose, what would you choose for an investment and why? [3+2]
10. Explain Internal Rate of Return (IRR) techniques of capital budgeting. Mention the acceptance rule, merits and demerits of IRR? [2+3]
11. What are the components of cash conversion cycle? Explain briefly. [5]
12. Write short notes (On any two): [2.5+2.5]
13. Corporation b) Amortized Loans c) Real options

**SECTION C: LONG ANSWER QUESTIONS (3** $× $**10 = 30 MARKS)**

*Answer any THREE questions:*

1. What goal would you like to recommend to a firm ‘stock price maximization’ or ‘profit maximization’? Discuss. [10]
2. Cash flows of project A and project B are given below.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Year | 0 | 1 | 2 | 3 | 4 |
| Project A (Rs) | (250,000) | 80,000 | 80,000 | 80,000 | 80,000 |
| Project B (Rs) | (250,000) | 90,000 | 130,000 | 100,000 | 60,000 |

1. Calculate the Net Present Value (NPV) of each project if the cost of capital is 10%. [8]
2. Which project/projects should be accepted? Give reasons. [2]
3. You are given balance sheet of ABC Company as on December 2010 (Rs. in ‘000).

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Assets | 2009 | 2010 | Capital and Liabilities | 2009 | 2010 |
| Current Assets: |  |  | Current liabilities: |  |  |
| Cash | 84 | 98 | Account payable | 312 | 344 |
| Account receivables | 164 | 188 | Notes payable | 231 | 196 |
| Inventories | 394 | 422 | Total current liabilities | 543 | 540 |
| Total current assets | 642 | 708 | Long term debt | 531 | 463 |
| Net fixed assets  | 2,731 | 2,880 | Shareholders’ equity | 500 | 550 |
|  |  |  | Retained earnings | 1,799 | 2,035 |
| Total Assets | 3,373 | 3,588 | Total Liabilities | 3,373 | 3,588 |

Additional information:

* Net profit mentioned in income statement of ABC Company as of December 31, 2010 is Rs. 312.
* Rs. 76 was given to shareholders as dividends.
* Depreciation expenses were of Rs. 276.

Prepare a cash flow statement showing:

1. Cash flow from operating activities. [3]
2. Cash flow from investing activities. [2]
3. Cash flow from financing activities. [3]
4. Evaluate the findings (Comment). [2]
5. Data for Birendranagar Chemical Company and its industry average are given below:

Birendranagar Chemical Company

Balance sheet as of December 2015 (in thousands)

|  |  |  |  |
| --- | --- | --- | --- |
| Assets | Amount | Liabilities | Amount |
| Cash | 77,500 | Accounts payable | 129,000 |
| Receivables | 336,000 | Notes payable | 84,000 |
| Inventories | 241,000 | Other current liabilities | 117,000 |
| Total current assets | 655,000 | Total current liabilities | 330,000 |
| Net fixed assets | 292,500 | Long –term debt | 256,500 |
|  |  | Common equity | 361,000 |
| Total assets | 947,500 | Total liabilities and equity | 947,500 |

Birendranagar Chemical Company

Income statement for year ended December 2015 (In thousands)

|  |  |
| --- | --- |
| Sales | 1,607,500 |
| Cost of goods sold | 1,392,500 |
| Selling, general, and administrative expenses | 145,000 |
| Earnings before interest and taxes (EBIT) | 70,000 |
| Interest expense | 24,500 |
| Earnings before taxes (EBT) | 45,500 |
| Federal and state income taxes (40%) | 18,200 |
| Net Income | 27,300 |

1. Calculate the indicated ratios for Birendranagar Chemical Company. [5]

 Industry Average

Current assets ratio… (2.0),

Day’s sales outstanding… (35 days),

Inventory turnover ratio… (6.7),

Debt ratio… (60%),

Return on total assets ratio… (3.6)

b) Discuss strengths and weakness as revealed by your analysis. [5]

**SECTION D: CASE STUDY (15 MARKS)**

1. *Read a case given below and answer the following questions:*

Remittance contributed big chunk of Nepal GDP. Various researches show that remittance coming to Nepal from different countries is being used for non-productive things. Government of Nepal wants to use this money for the development of country and uplifting the livelihood Nepalese people in long run. For this, government is issuing Rs. one billion bond for non-residential Nepalese citizen. Nepal Government hired you to travel different countries and organize seminars to aware NRN about the features and benefits of bonds. In one of the seminar you are in Dubai. Participants of that seminar asked you following questions. Now as an expert of finance how would you answer following questions to make ordinary people understand about the features and benefits of bond.

1. What are the key features of bond? [4]
2. What are call provisions and sinking fund provisions? Do these provisions make bonds more or less risky? [4]
3. How is the value of a bond determined? What is the value of a 10-year, Rs. 1,000 par value bond with 10% annual coupon if its required rate of return is 8%? On the basis of this question explain the calculation process of valuation of bond. [2+5]

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