GLOBAL COLLEGE INTERNATIONAL

PRE-BOARD EXAMINATION 2023

BACHELOR OF BUSINESS ADMINISTRATION (BBA)

SEMESTER – II

Subject: Financial Management-I Course Code: MGT 423

Full Marks: 100 Time: 3 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. Define is financial management. Describe the goals of financial management. (5)
2. What is ratio analysis? Describe the uses of financial ratios. [2+3]
3. Define credit terms. What are the components of credit terms?
4. Siddhartha Garment Company has Rs. 5,000,000 of debt outstanding, and it pays an interest rate of 12 percent annually. Its annual sales are Rs. 20 million, its average tax is 25 percent and its net profit is Rs 600,000. If the company does not maintain a times interest earned (TIE) ratio of at least 4 times, its bank will refuse to renew the loan and bankruptcy will result.
   1. What is Siddhartha Garment's TIE ratio? Is the bank likely to renew the loan? [3+1]
   2. How much net profit the company should generate in order to get loan renewed? [1]
5. Your broker offers to sell you a note for Rs. 13,250 that will pay Rs. 2,345.05 per year for 10 years. What interest rate (to the closet percent) will you earn if you buy the note? (5)
6. Chitwan Textile Industry just borrowed Rs. 150,000. The loan is to be repaid in equal installments at the end of each of the next 4 years, and the interest rate is 15 percent.
   1. Setup an amortization schedule for the loan. (4)
   2. What fraction of payment made in year 2 represents the principal? (1)
7. Gosai Utensils Company has a good financial position and regard as the low-risk option for the investment in Nepali Stock market. The last dividend of the company is Rs 4 and expected to grow earnings and dividend at a constant rate of 4.55 percent in future. Furthermore, if required rate of return remain constant at 15 percent:
8. What is the value of stock today (P0)? [2]
9. What will be expected value of stock five year from now (P5)? [2]
10. Using the answer of part (a) and (b), calculate the capital gain yield. [1]
11. A Project has a cost of Rs. 10,000 and its expected net cash inflows are Rs. 3,000 per year for 5 years.
12. What is the payback period for the project? Would you accept this project if the maximum cost recovery time is 4 years.
13. Assuming 10 percent required rate of return what is the discounted payback period?
14. Calculate the NPV of the project. Would you accept this project?
15. Calculate the profitability index of the project. Would you accept this project?
16. The Kapilvastu Traders sells 90,000 ball pens annually. The optimal safety stock (which is on hand initially) is 1,250 ball pens. Each pen costs the firm Rs. 27, inventory carrying costs are 10 percent, and the cost of placing, and order with the supplier is Rs. 15. The firm requires 6 days to receive the order placed.
17. What is the economic order quantity? (1)
18. What is the total inventory costs of ballpen including safety stock? (1.5)
19. What is the maximum inventory level? (1)
20. What is the reorder point? (1.5)
21. You Placed an order for 300 units of inventory at a unit price of Rs. 50. The suppliers offers terms of 2/10, net 30.
    1. How long is the credit period? (1)
    2. If you take the full period, how much you have to pay? (1)
    3. What is the discount being offered? State both in percent and rupee amount. (1)
    4. How quickly must you pay to get the discount? (1)
    5. If you do take the discount, how much should you have to pay? (1)

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

*Answer any THREE questions:*

1. What is stock? Explain its characteristics. (2 + 8)
2. What is capital budgeting? Describe different types of investment projects with examples.
3. Assume that it is now January 1, 2023. On January 1, 2024, you will deposit Rs. 1,000 into a saving account that pays you 8 percent interest per annum.
   1. If the bank compounded interest annually, how much will you have in your account on January 1, 2027?
   2. What would your balance be on January 1, 2027, if the bank uses quarterly compounding rather than annual compounding?
   3. Suppose you deposit Rs. 1000 in 4 payments of Rs 250 each on January 1 from 2023 to 2026. How much would you have in your account on January1, 2027, based on annual compounding at given interest rate.
   4. Suppose you deposit 4 equal installments in your account on each January 1 from 2024 to 2027. Assuming the given interest rate is applied, how large would each of your payments have to be for you to obtain the same ending balance as you calculated in part (a) on the same date?
4. Horsandi Company recently launch an exciting new product and experiencing a period of rapid growth. The earnings and dividends are expected to grow at a rate of 10 percent during the next 2 years and at 8 percent in the third year. Finally, at a constant rate of 5 percent thereafter. The last dividend of the Company was Rs. 12, and the required rate of return on the stock is 13 percent.

Required:

1. What is the value of the stock today?
2. Calculate P1 and P2.
3. Calculate the dividend yield and capital gain yield for year 1, 2 and 3.
4. Kirtika Utensils has issued 10 percent coupon with 12 years of maturity. The bond is currently selling for Rs. 1,100.

Required:

1. What is the current yield on the bond? [2]
2. What is the yield to maturity? [5]
3. Suppose Kirtika Utensil’s bond yield to maturity would have 10 percent 1 year from now, what will its price be? [2]
4. What will be the rate of return if you buy the bond at present and sell at the end of Year 1? [1]

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

1. ABC Company is contemplating two projects A and B with the following cash flows:

|  |  |  |
| --- | --- | --- |
| Year | Project A | Project B |
| 0 | (Rs. 100,000) | (Rs. 140,000) |
| 1 | 30,000 | 53,000 |
| 2 | 35,000 | 53,000 |
| 3 | 40,000 | 53,000 |
| 4 | 45,000 | 53,000 |
| 5 | 55,000 | 53,000 |

1. Calculate the payback period of each project. [1+1]
2. Evaluate the project on the basis of their NPV. Assume that the cost of capital is 11 percent. [2+2]
3. Calculate the IRR for each project. [3+3]
4. Which project or projects should be accepted if they are independent? [1]
5. Which project should be accepted if they are mutually exclusive? [1]
6. Assuming the projects are mutually exclusive and there exists a conflict of result among the above ranking methods, which method would you follow and why? [1]

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