

Mid-West University  
**Examinations Management Office**  
Birendranagar, Surkhet  
End Semester (Alternative/Physical) Examination-2078  
Bachelor of Business Administration (BBA)  
Semester - II

Subject: Financial Management-I  
Full Marks: 50 Pass Marks: 25

Course Code: MGT 323  
Time: 3:00 Hours

*You are required to answer in your own words as far as applicable.*

**Attempt all of the following Questions:**

**5×10=50**

1. Compare between wealth maximization and profit maximization goals. Which goal would you like to recommend and why? [10]

2. The following data apply to Sagarmatha company (Rs. in millions)

Cash and marketable securities	Rs 100
Sales	Rs 1000
Fixed assets	Rs 283.50
Net income	Rs 50
Quick ratio	2.0 x
Current ratio	3.0 x
Days sales outstanding (DSO)	40 days
Return on equity (ROE)	12%

Calculation is based on a 360 days.

Sagarmatha has not issued any preferred stocks. The company's liabilities consist of only common equity, current liabilities and long-term debt.

- a. Find Sagarmatha's (1) account receivable, (2) current liabilities, (3) current assets, (4) total assets, (5) ROA, (6) common equity, and long-term debt. [7]
- b. In part (a) you should have found Sagarmatha's accounts receivable = Rs.111.11 million. If Sagarmatha could reduce its DSO from 40 days to 30 days while holding other things constant, How much cash would it generate? If this cash was used to buy back common stocks (at book value), thus reducing the amount of common equity, how would this effect 1) The ROE 2) the ROA and 3) D/A ratio. [3]
3. a) XYZ Company has an irregular dividend policy. The company has just paid a dividend of Rs 12 per share and has announced that it will increase the dividend by Rs 6 per share for each of the next four years and then the dividend will grow at a constant rate of 5 percent forever. If you require a 10 percent return on the company's stock, how much will you pay for a share today? [5]
- b) Your company is planning to borrow Rs 1,000,000 on a 5 years ,15 %, annual payments, fully amortized term loan. What fraction of payment made at the end of the second year will represent repayment of principal? What fraction of the payment made at the end of second year represents repayment of interest? [5]

**OR**

The following information for inventory purchase and storage cost has been provided for M&J company.

Order must be placed in multiples of 100 units.

Requirements for the year are 180000 units. (use 50 weeks in a year for calculation.)

The purchase price per unit is Rs 2.

Carrying cost is 50 percent of the purchase price of goods.

The cost per order placed is Rs 400.

Desired safety stock is 10,000 units.

One week is required for delivery.

- a. What is the most economic order quantity? [3.5]
  - b. What is the optimal number of orders to be placed? [3.5]
  - c. At what inventory level should a reorder be made? [3]
4. A 10- year, 8 percent coupon bond, with par value of Rs 1,000 sells for Rs 1050.
- a. What is the current yield of the bond? [2]
  - b. What is the yield to maturity? [5]
  - c. If the bond has yield to maturity of 8 percent one year from now, what will its price be? [3]
5. What are the types of capital budgeting projects? Explain with an illustration. [10]

**OR**

Write the concept of cash management. What are the motives of holding cash? Explain. [2+8]

**The End**