



**MID-WEST UNIVERSITY**  
**SCHOOL OF MANAGEMENT (MUSOM)**  
(An Autonomous Institution)  
**MUSOM EXAMINATIONS SECTION**  
**FINAL EXAMINATION-2024 (2080)**  
**BACHELOR OF BUSINESS ADMINISTRATION (BBA)**  
**SEMESTER – IV**

**Subject: Financial Management-I**  
**Full Marks: 100**

**Course Code: MGT 441**  
**Time: 3 Hrs.**

**Exam Roll No.:** .....

**Section A: Multiple Choice Questions (1×15 = 15 Marks)**

**Time: 15 Minutes**

*Tick (✓) the correct answers*

1. The relationship between stockholder and management is called \_\_\_\_\_.
  - a. stock relationship
  - b. agency relationship
  - c. bond relationship
  - d. proxy relationship
2. Which of the following decisions is concerned with finding the potential sources of funds and raising funds with an optimal mix of debt and equity at minimum cost?
  - a. Investment decision
  - b. Financing decision
  - c. Current assets management decision
  - d. Dividend decision
3. Inventory turnover ratio which is calculated by dividing the cost of goods sold by average inventory is an example of \_\_\_\_\_.
  - a. liquidity ratio
  - b. debt management ratio
  - c. assets management ratio
  - d. profitability ratio
4. The time value of money indicates that
  - a. A unit of money obtained today is worth more than a unit of money obtained in future.
  - b. A unit of money obtained today is worth less than a unit of money obtained in future.
  - c. There is no difference in the value of money obtained today.
  - d. None of the above.
5. Which of the following ratios is a measure of debt management?
  - a. Inventory turnover
  - b. Return on assets
  - c. Debt ratio
  - d. Return on equity
6. If the nominal rate of interest is 10% per annum and there is quarterly compounding, the effective rate of interest will be:
  - a. 10% per annum
  - b. 10.10 per annum
  - c. 10.25% per annum
  - d. 10.38% per annum
7. If we deposit Rs 5,000 today at the initial rate of 10 percent per annum, it will be Rs \_\_\_\_\_ at the end of 5 years.
  - a. 8,502.25
  - b. 8,205.55
  - c. 8,052.55
  - d. 8,500.55
8. Which of the following is not a feature of common stock?
  - a. Voting right
  - b. Rights for dividend
  - c. Rights on assets
  - d. Unlimited liability

9. The current dividend of a stock is Rs. 5, the constant growth rate is 10 percent and the investors' required rate of return is 15 percent. What is the value of the stock?
- a. 100
  - b. 110
  - c. 55
  - d. 50
10. Which of the following capital budgeting techniques uses accounting information to measure the profitability of an investment?
- a. Discounted payback period
  - b. Accounting rate of return
  - c. Net present value
  - d. Internal rate of return
11. Which of the following is the acceptance rule of the payback period?
- a. if  $PBP \leq$  maximum cost recovery period (MCRP), accept the project
  - b. if  $PBP >$  maximum cost recovery period (MCRP), accept the project
  - c. if  $PBP > 0$ , accept the project
  - d. None of these.
12. The operating cycle is the length of time required to:
- a. convert raw materials into finished goods
  - b. convert receivables into cash
  - c. pay to suppliers
  - d. convert raw material into finished goods and collect cash from receivable
13. The time between placing an order and its receipt in stock is known as \_\_\_\_\_.
- a. lead time
  - b. carrying time
  - c. shortage time
  - d. over time
14. Which of the following bonds are sold at a heavy discount?
- a. Treasury bonds
  - b. Foreign bonds
  - c. Municipal bonds
  - d. Zero coupon bonds
15. Net working capital refers to
- a. total assets minus fixed assets.
  - b. current assets minus current liabilities.
  - c. current assets minus inventories.
  - d. current assets





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

**Section – B: Short Answer Questions** **(8 × 5 = 40 Marks)**

Answer any eight questions:

1. What do you mean by financial management? Discuss the goals of the financial management. (2+3)
2. Find the value of the following bonds assuming the required rate of return is 14 percent.
  - a. 8 percent, Rs 1,000 par value bonds. (1)
  - b. Rs 1,000 par, zero coupon bonds, with a maturity period of 10 years. (2)
  - c. 8 percent, 12 years Rs 1,000 par value bonds. (2)
3. Write the meaning of ratio analysis. Discuss the limitation of ratio analysis. (2+3)
4. The Karnali Apple Co. had a quick ratio of 1.4 a current ratio of 3.0, an inventory turnover of 6 times, total current assets of Rs 810,000 and cash and marketable securities of Rs 120,000. What were Karnali Apple Co.'s annual sales and its DSO? Assume 365 days a year. (5)
5. XYZ Company's expected year-end dividend per common stock is Rs 25. The dividend is expected to grow at a constant rate of 7 percent. The required rate of return of the common stock is 17 percent. Calculate the value of the stock, dividend yield and capital gain yield. (2+1.5+1.5)
6. Sharma Corporation's annual sales are Rs 4600,000, and its annual credit purchase is Rs 3400,000. The corporation has the following current assets and current liabilities.

Inventory	Rs 500,000
Receivable	Rs 850,000
Account payable	Rs 700,000

  - a. Calculate the corporation's inventory conversion period. (1.5)
  - b. Calculate the corporation's receivable conversion period. (1)
  - c. Calculate the corporation's payable deferral period. (1.5)
  - d. What is the corporation's cash conversion cycle? (1)
7. What do you mean by EOQ? Explain the methods of determining EOQ. (2+3)
8. Delta Computer suppliers must order pen drives from their suppliers. Given the following information, complete the table below and determine the economic order quantity of pen drives for Delta Computer Suppliers. (5)

Annual requirement = 260,000 dozen  
Ordering cost per order = Rs 300  
Purchase price per pen drive = Rs 7.80  
Carrying cost = 20%

Order Size	2500	5000	10000	20000	130000	260,000
Number of order						
Average Inventory						
Total carrying cost						
Total Ordering Cost						
Total Inventory cost						

9. Define time value of money. Explain the significance of time value of money. (1+4)
10. Write short notes: (2.5+2.5)
  - a. Preferred stock
  - b. Corporate bond and municipal bond

**Section – C: Long Answer Questions** **(3 × 10 = 30 Marks)**

Answer any three questions:

11. What is capital budgeting? What are the techniques of capital budgeting? Explain. (3+7)
12. Following are the financial statements of Sundar Samaj Inc.

**Sundar Samaj Inc.**  
**Balance sheet as at December 31<sup>st</sup>**

Assets	2015	2016	Liabilities and Equity	2015	2016
Cash	650	710	Accounts payable	987	1,215
Account receivable	2,382	2,106	Notes payable	640	718
Inventories	4,408	4,982	Other	90	230
Total current assets	7,440	7,798	Total current liabilities	1,717	2,163
Fixed assets	13,992	18,584	Long-term debt	4,318	4,190
			Total debt	6,035	6,353
			Owners' equity (1250 shares outstanding)	15,397	20,029
<b>Total Assets</b>	<b>21432</b>	<b>26382</b>	<b>Total</b>	<b>21,432</b>	<b>26,382</b>

**Sundar Samaj Inc. Income statement for the year ending December 31<sup>st</sup> 2016**

Particulars	Rs
Sales	28,000
Cost of goods sold	11,600
Depreciation	2,140
Operating income (EBIT)	14,260
Less: interest paid	980
Taxable income (EBT)	13,280
Less: tax @ 35%	4,648
Net income	8,632
Dividends	4,000
Addition to retained earnings	4,632
Market price for a share of stock	63

- a. Prepare the statement of cash flow for the firm. (8)
- b. Summarize the cash flow. (2)
13. What is cash management? Explain the motives for holding adequate cash. (10)
14. A-10 year, 12 percent semi-annual coupon bond, with a par value of Rs 1,000 may be called in 4 years at a call price of Rs 1,060. The bonds sell for Rs 1,100. (Assume that the bond has just been issued).
  - a. What is the bond's yield to maturity? (5)
  - b. What is the bond's current yield? (2.5)
  - c. What is the bond's capital gain or loss yield? (2.5)
15. Karnali Brick Industry's demand for bricks is 400,000 per year. The purchase price of brick is Rs 20 per piece and the carrying cost is 30 percent of the purchase price. The ordering cost is Rs 50 per order. It keeps 2000 bricks as safety stock.
  - a. What is the economic order quantity? (2)
  - b. What is the number of orders? (2)
  - c. What is the average inventory? (2)
  - d. What is the total inventory cost? (4)

**Section – D: Case Study**

**(15 Marks)**

16. Your Company is considering two investment projects, each of which requires an up-front expenditure of Rs 25 million. You estimate that the cost of capital is 10 percent and that the investments will produce the following after-tax cash flows (in millions of rupees):

Year	1	2	3	4
Project A (Rs)	5	10	15	20
Project B (Rs)	20	10	8	6

- a. What is the regular payback period for each of the projects? (3)
- b. What is the discounted payback period for each of the projects? (3)
- c. If the two projects are independent and the cost of capital is 10 percent, which project or projects should the firm undertake? (3)
- d. If the two projects are mutually exclusive and the cost of capital is 5 percent, which project should the firm undertake? (3)
- e. If the cost of capital is 10 percent, what is the modified IRR (MIRR) of each project? (3)