MID-WEST UNIVERSITY
SCHOOL OF MANAGEMENT (MUSOM)
(An Autonomous Institution)
FINAL EXAMINATION-2078
MASTER OF BUSINESS ADMINISTRATION (MBA)
SEMESTER – II

Subject: Financial Management — **Course Code: MGT 523**
Full Marks: 100 — **Time: 4 Hrs.**

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 (5×6 = 30 MARKS)

Answer any FIVE questions:

1. Explain the functions of financial management. 6
2. Suraj Bakery's current sales were Rs. 20 million. Sales were Rs. 10 million 5 years earlier.
   a) To the nearest percentage point, at what rate have sales been growing?
   b) Suppose someone calculated the sales growth for Suraj Bakery's in part (a) as follows: "Sales doubled in 5 years. This represent a growth of 100 percent in 5 years, so dividing 100 percent by 5, we find the growth rate to be 20 percent per year." Explain what is wrong with this calculation. 5+1
3. Explain the motives for holding cash. 6
4. Run Shoes Corporation is a leading producer of all kinds of sports shoes. Corporation turns out 1200 pairs of shoes a day at a cost of Rs 800 per pair of shoes for raw materials and labor. It takes the corporation 24 days to convert raw materials into shoes. Corporation allows its customers 40 days in which to pay for the shoes, and the corporation pays its suppliers in 30 days. Assume 360 days in a year.
   a) What is the corporation cash conversion cycle?
   b) If corporation always produces and sell 1200 pairs of shoes a day, what amount of working capital must be finance? ×800 5 34
   c) If the corporation could sell all the produced shoes at a price of Rs 1,050 per pair of shoes, what is the working capital turnover? 2+2+2
5. National Hydropower Company's common stock is currently trading at Rs 300 a share. The stock is expected to pay a dividend of Rs 10 a share at the end of the year ($D_1 = 10$), and the dividend is expected to grow at a constant rate of 8 percent a year. What is the cost of common equity? 6
6. Explain the cost associated with receivables. 6
7. Write short notes on: 3+3
   a) Payable deferral period b) Modified internal rate of return

SECTION C: LONG ANSWER QUESTIONS (2×15 = 30 MARKS)

Answer any TWO questions:

8. Define Capital budgeting. Mention the various decision making criterion of capital budgeting. Why NPV is taken as superior decision criterion than IRR. Explain. 4+3+8
9. Sagarmatha Food Incorporation makes all sales on a credit basis, selling terms 2/10, net 30. Once a year it evaluates the creditworthiness of all customers. The evaluation procedure ranks customers from 1 to 5, with 1 indicating the "best" customer. Results of the ranking are as follows:

Customers categories	Percentage of bad debt	Days sales outstanding	Credit decision	Add sales if credit extended to category
1	None	10	Unlimited credit	None
2	1	12	Unlimited credit	None
3	4	20	Limited credit	Rs 275,000
4	11	50	Limited credit	180,000
5	15	85	Limited credit	230,000

The variable cost ratio is 80 percent, and its marginal tax rate is 30 percent. The cost of capital invested receivables is 12 percent. What would be the effect on the profitability of extending unlimited credit to each of Categories 3, 4, and 5?

10. On January 1, 2020, the total assets of the Himstar Electronic Company were Rs. 60 million. By the end of the year total assets are expected to be Rs. 90 million. (Assume there is no short-term debt.) The firm's capital structure, shown below, is considered to be optimal;

Debt (11% coupon bonds)	Rs. 24,000,000
Preferred stock (at 11.5%)	6,000,000
Common equity	30,000,000
	Rs. 60,000,000

New bond will have a 12 percent coupon rate and will be sold at par. Preferred stock will have a 12.5 percent rate and will be sold at par. Common stock, currently selling at Rs. 30 a share, can be sold to net the company Rs. 27 a share. Stockholders' required rate of return, estimated to be 12 percent, consists of dividend yield of 4 percent and an expected growth of 8 percent Retained earnings are estimated to be Rs. 3 million (ignoring depreciation). The marginal corporate tax rate is 40 percent.

a) Assuming all asset expansion (gross expenditures for fixed assets plus related working capital) is included in the capital budget, what is the amount of the capital budget (ignoring depreciation)?
b) To maintain the present capital structure, how much of the capital budget must be financed by equity?
c) How much of the new equity funds needed must be generated internally? How much externally?
d) Calculate the cost of each of the equity components.
e) At what level of capital expenditures will there be a break in the MCC schedule?
f) Calculate the MCC both below and above the break in the schedule. 2+2+2+3+3+3

SECTION D: CASE STUDY (20 MARKS)

11. Read the following case and give answer.

Lagam Betan Hydropower Company it the largest Hydropower Company of western Nepal. The company has appointed you as a financial analyst. The director of capital budgeting has asked you to analyze two proposed capital investments projects M and N. Each project has a cost of Rs. 25,000, and the cost of capital for each project is 10 percent. The projects' expected net cash flows are as follows: 16+2+2

Year	0	1	2	3	4
Project M (Rs)	(25,000)	15,000	6,000	8,000	2,000
Project N (Rs)	(25,000)	7 000	7,000	7,000	7,000

a) Calculate each project's payback period, net present value (NPV), internal rate of return (IRR), and modified internal rate of return (MIRR).
b) Which project or projects should be accepted if they are independent?
c) Which projects should be accepted if they are mutually exclusive?