

Mid-West University  
**Examinations Management Office**  
Surkhet, Nepal  
End-Semester Examinations-2081  
Bachelor of Business Studies (BBS)  
Semester - II

Subject: Introduction to Finance - I  
Full Marks: 60 Pass Marks: 30

Course Code: MGMT 423/323  
Time: 3: 00 Hours

*You are required to answer in your own words as far as applicable. Figures in the margins indicate full marks.*

**SECTION A: VERY SHORT ANSWER QUESTIONS (10 X 1 = 10 MARKS)**

Answer **ALL** the questions.

1. What are the goals of financial management?
2. Write any four uses of financial ratio.
3. A corporation has DSO of 30 days. The company's annual sales are Rs. 6,00,000. What is the level of account receivable? Assume there 360 days in a year.
4. How do you calculate the cost of debt with maturity period?
5. What is the present value of perpetuity of Rs. 25,000 per year if the appropriate discount rate is 12.5 percent?
6. Give the meaning of pay-back period.
7. The following information is given below:  
Annual requirement 25,000 units Cost per unit Rs.20  
Cost per order 250 Carrying cost per unit 10% of Inventory cost.  
**Required:** Total cost of EOQ.
8. Write the meaning of present value.
9. If you deposit Rs. 55,000 in a bank and the bank agrees to pay you an interest rate of 10 percent per year. Find the future value at the end of 8 year.
10. The Bheri Gas Company has an inventory conversion period of 75 days, it pays its suppliers on average 50 days, and collects from debtors on average 70 days. Find the cash conversion cycle.

**SECTION B: SHORT ANSWER QUESTIONS (3 X 3 = 9 MARKS)**

Answer any **THREE** questions.

11. What do you mean by agency problems? How can the agency problem be settled between shareholder and manager? [2+6]
12. (a) D. Traders just borrowed Rs.3,50,000 from RBB bank. The loan is to be repaid in equal installment at the end of each year of the next 5 years and the interest rate is 10 percent. Set up an amortization schedule. [5]  
(b) find the present value of Rs. 9,000 annuities, per years for 5 years at 12 percent discount rate. [3]
13. (a) Define the meaning of cost of preferred stock. How is it calculated? [2+3]  
(b) A company was recently formed to manufacture a new product. The company has the following capital structure in market value term:  
12% debenture Rs. 8,00,000  
10% preferred stock Rs. 2,00,000  
Common stock Rs. 10,00,000  
The common stock sells for Rs 100 a share, and company has marginal tax rate of 40 percent. A study of publicly held companies in this line of business suggests that the required return on equity is about 18 percent for a company of this short. Compute the firm's present weighted average cost of capital. [3]

14. Complete the balance sheet and sales information (fill in the blanks) for ABC company using the following financial data.

Debt ratio	50%	Acid test ratio	0.80
Total assets turnover	1.5 times	Days sales outstanding in receivable	36
Gross profit margin	25%	Inventory turnover	5 times

Balance sheet

Assets	Amount	Capital & liabilities	Amount
Cash	?	Account payable	?
Account receivable	?	Long term debt	Rs. 80,000
Inventories	?	Common Stock	?
Plant and equipment	?	Retained earning	Rs. 1,95,000
Total	Rs. 6,00,000	Total liabilities & capital	?
Sales	?	Cost of goods sold	?

15. Write the meaning of ratio analysis. Mention the various types of ratio. [2+6]

**SECTION C: LONG ANSWER QUESTIONS (2 X 12 = 24 MARKS)**

Answer any TWO questions.

16. Give the concept of working capital. Explain the various factors that affect the working capital of a business organization. [5+8]

17. Two mutually exclusive projects have projected cash flows as follows:

Year	0	1	2	3	4	5
Project X	(1,00,000)	20,000	35,000	40,000	45,000	50,000
Project Y	(1,40,000)	50,000	50,000	50,000	50,000	50,000

Suppose you are the project manager and you have to recommend one of these projects for the approval of the board of directors. The required rate of return on these projects is 10 percent. Calculate the payback period, NPV and IRR of each project. Which project would you select if they are mutually exclusive? [2+5+6]

18. Raj Corporation comparative balance sheet on December 31 (in million)

Balance sheet					
Assets	2001	2002	Liabilities and shareholder's equity	2001	2002
Cash balance	1,00,000	2,00,000	Common stock	10,00,000	12,00,000
Bills receivable	1,00,000	2,40,000	Preferred stock	2,00,000	2,40,000
Inventories	2,00,000	1,40,000	Debenture	2,00,000	1,00,000
Fixed assets	12,00,000	14,00,000	Bills payable	3,00,000	3,40,000
Investment	2,00,000	1,00,000	Retained earning	1,00,000	2,00,000
Total	18,00,000	20,80,000		18,00,000	20,80,000

**Additional information:**

Net income during the year	Rs. 1,60,000
Depreciation on fixed assets	Rs. 60,000
Purchase of fixed assets	Rs. 3,60,000
Dividend paid	Rs. 60,000
A part of fixed assets (book value were Rs. 1,00,000) were sold for	Rs. 50,000
Investment (book value were Rs. 1,00,000) were sold for	Rs. 1,20,000
Debentures were redeemed at 10% discount.	

**Required:** Cash flow statement.

[6+2+3+2]

**THE END**