Mid-West University

Examinations Management Office

Surkhet, Nepal

Final Examination-2078

Master of Business Studies (MBS)

Semester - III

Subject: Financial Management	Course Code: MGMT 535
Full Marks: 60 Pass Marks: 30	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: CRITICAL THINKING QUESTIONS (10 X 1 = 10 MARKS)

*Answer **ALL** the questions:*

1. What are the routine functions of financial management?
2. Write the meaning of Common Size Statement Analysis.
3. Mention any four limitations of ratio analysis.
4. What do you mean by free cash flow?
5. Write the meaning of NPV profile.
6. Mention the formula for calculating carrying cost of receivable.
7. Define payback period.
8. What is inventory conversion period? How is it calculated?
9. Mention the procedures of dividend payment.
10. Define residual dividend policy.

SECTION B: SHORT ANSWER QUESTIONS (3 X 8 = 24 MARKS)

*Answer any **THREE** questions:*

11. "Wealth maximization goal of the firm is superior to the profit maximization." Justify this statement. [8]
12. Karnali Noodles Inc. had earnings per share of Rs 4 last year and paid Rs 2 dividend. Total retained earnings increased by Rs 12 million during the year, while book value per share at year-end was Rs 40. Karnali Noodles has no preferred stock, and no common stock was issued during the year. If Karnali Noodles's year-end debt (which equals its total liabilities) was Rs 120 million, what was the company's year-end debt/assets ratio? [8]
13. Shikhar Shoes Industries has a capital structure that consists solely of debt and common equity. The company can issue debt at 11 percent. Its stock currently pays Rs 2 dividend per share and the stock's price is currently Rs 24.75. The company's dividend is expected to grow at a constant rate of 7 percent per year; its tax rate is 35 percent; and the company estimates that its WACC is 13.95 percent. What percentage of the company's capital structure consists of debt financing? [8]
14. The Gangamala Mining Corporation expects with some degree of certainty to generate the following net income and to have the following capital expenditures during the next 5 years (In thousands) [4x2]

Year	1	2	3	4	5
Net income	Rs 4200	Rs 2200	Rs 3300	Rs 4300	Rs 2800
Capital expenditure	3500	3700	2800	6400	3400

The company currently has 2 million shares of common stock outstanding and pays dividend of Rs 1 per share.

a) Determine the amounts of external financing in each year that will be necessary if the present dividend per share is maintained.

b) Determine dividend per share and external financing required in each year if dividend policy is treated as residual policy

c) Determine dividend per share and the amount of external financing that will be necessary if a dividend payout ratio of 50 percent is maintained.

d) Under which of the three dividend policies are (1) aggregate dividends maximizes? (2) External financing minimized?

15. Write short notes on (Any Two) : [4x2]

a) Agency Problem

b) Motives of holding cash

c) Weighted average cost of capital

SECTION C: LONG ANSWER QUESTIONS (2 X 13 = 26 MARKS)

*Answer any **TWO** questions:*

16. a) Define receivable management. Explain the cost of maintaining receivables. [2+5]

b) Explain the various approaches of estimating cost of equity. [6]

17. Hetauda Clothing Inc. has two alternative investment projects: Project M and Project N. It does not have sufficient funds to invest both projects and has a capital rationing policy. Followings are the relevant financial information about these projects: [4+4+5]

Particulars	Project M	Project N
Initial investment	Rs 50,000	Rs 50,000
Net cash flows per year	Rs 18,000	Rs 12,000
Expected life	5 years	10 years
Cost of capital	10 percent	10 percent

a) Calculate NPV and IRR for each project.

b) Which project should Hetauda accept?

18. Zawala Color Bank, Inc. is considering changing its credit terms from 2/15 net 30, to 3/10 net 30, in order to speed collections. At present 40 percent of Zawala's non-default customers take the 2 percent discount. Under the new terms, discount customers are expected to rise to 50 percent of the non-default customers regardless of the credit terms half of the customers who do not take the discount are expected to pay on time, whereas the remainder will pay 15 days late. The change does not involve a relaxation of credit standards; therefore, bad debt losses are not expected to rise above their present 2 percent level. However, the more generous cash discount terms are expected to increase sales from Rs 3 million to Rs 3.8 million per year. Zawala's variable cost ratio is 80 percent, the interest rate in funds invested in account receivable is 10 percent, and the firm's marginal tax rate is 30 percent.

a) What are the days' sales outstanding before and after the change? [2]

b) Calculate the discount costs before and after the change. [2]

c) Calculate the rupee cost of carrying receivable before and after the change. [2]

d) Calculate the bad debt losses before and after the change. [2]

e) What is the incremental profit from the change in credit terms? Should Zawala change its credit term? [5]

THE END