

Mid-West University  
**Examinations Management Office**  
Surkhet, Nepal  
Chance Examination-2079  
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 is financial management?
2. What do you mean by days sales outstanding?
3. Write the meaning of DuPont equation.
4. Define weighted average cost of capital.
5. Write the meaning of NPV profile.
6. State the major problems of payback period.
7. Mention the formula for calculating carrying cost of receivable.
8. What is re-order point?
9. Mention the procedures of dividend payment.
10. What do you mean by stock dividend?

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

Answer any **THREE** questions:

11. Write the difference between profit maximization and wealth maximization goal of the firm. [8]
12. The Karnali Mart, has the sales of Rs 9 million, an asset turnover ratio of 5 for the year, and net profits of Rs 270,000
  - a) What is the company's return on assets or earning power? [4]
  - b) The Karnali Mart is planning to install new point-of-sales cash registers through its stores. This equipment is expected to increase efficiency in inventory control, reduce clerical errors and improve record keeping throughout the system. The new equipment will increase the investment in assets by 20% and is expected to increase the net profit margin from 3% now to 5%. No change in the sales is expected. What is the effect of the new equipment on the return on assets ratio or earning power? [4]
13. a) What are the methods of determining the cost of equity? Explain briefly. [3]
  - b) The Dafe Sport Company's cost of equity is 16 percent. Dafe Sport's before-tax cost of debt is 10 percent, and tax rate is 30 percent. Using the following balance sheet, calculate Dafe Sport's after-tax weighted average cost of capital. (Assuming that this accounting balance sheet also represents Dafe Sport's target capital structure) [5]

Assets		Liabilities and Equity	
Cash	Rs500	Account payable	Rs 600
Account receivable	700	Accrued taxes and due	1900
Inventories	1300	Long-term debt	2000
Plant and equipment, net	5000	Equity	3000
<b>Total Assets</b>	<b>Rs 7,500</b>	<b>Total Liabilities and Equity</b>	<b>Rs7500</b>

14. Himalayan Distillery Company has the target capital structure that consists of 60 percent debt and 40 percent equity. The company anticipates that its capital budget for the upcoming year will be Rs 4000,000.

If Himalayan Distillery has the net income of Rs 2500,000 and it follows a residual distribution model with all distribution as dividends, what will be its dividend payout ratio? [8]

15. Write short notes on (Any Two) : [4x2]
- Residual dividend policy
  - Economic order quantity
  - Common size statement analysis

### 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 methods of repurchase of stock. [6]
17. You are a financial advisor for the LG Electronics Corporation. The director of the capital budgeting of LG Electronics Corporation has asked you to analyze two proposed capital investments Projects A and Z. Each project has a cost of Rs. 500,000, and the cost of capital for each project is 12 percent. The projects' expected net cash flows are as follows:

<u>Expected Net Cash Flows</u>		
<u>Year</u>	<u>Project A</u>	<u>Project Z</u>
0	(Rs. 500,000)	(Rs. 500,000)
1	255,000	178,700
2	150,000	178,700
3	150,000	178,700
4	100,000	178,700

- Calculate each project's payback period, net present value (NPV) and internal rate of return (IRR) [10]
  - Which project or projects should be accepted if they are independent? [1.5]
  - Which project should be accepted if they are mutually exclusive? [1.5]
18. a) Surkhet Textile, Inc. has 15 retail clothing outlets scattered throughout the country. Each outlet sends an average of Rs 17,500 daily to the head office in Surkhet, through cheques drawn on local banks. On average, it takes four days before the company's Surkhet bank collects the cheques. Surkhet Textile, Inc. is considering an electronic funds transfer arrangement that completely eliminate the float. [2+2+4]
- What amount of funds will be released?
  - What amount will be released on net basis if each local bank requires increases in compensating balance of Rs 14,000 to offset the loss of float?
  - Suppose that the company could earn 10 percent interest on the net released funds in part (b). If the cost per electronic transfer was Rs 10 and each store averaged 250 transfers per year, would the proposed arrangement be worthwhile?
- b) Oxide Battery Corporation is a leading producer of all kinds of batteries the corporation turns out 1500 automobiles batteries a day at a cost of Rs 3,000 per battery for raw materials and labor. It takes the corporation 24 days to convert raw materials into a battery the corporation allows its customers 40 days in which to pay for the batteries, and the corporation pays its suppliers in 30 days. Assume 360 days in a year. [1+2+2]
- What is the corporation cash conversion cycle?
  - If the corporation always produces and sell 1500 batteries a day, what amount of working capital must be finance?
  - If the corporation could sell all the produced batteries at a price of Rs 4,000 per battery, what is the working capital turnover?

**THE END**