

MID-WESTERN UNIVERSITY
FACULTY OF MANAGEMENT
FINAL EXAMINATION: 2073
BACHELOR OF BUSINESS STUDIES (BBS)
SEMESTER - II

Subject: Introduction to Finance -I
Full Marks: 100

Course Code: MGMT 323
Time: 3 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 (10X2 = 20 MARKS)

Answer ALL questions.

- Q1. What is agency relationship?
Q2. Write the formula of weighted average cost of capital.
Q3. Give the concept of payback period.
Q4. List out the activities involved in cash flow statement.
Q5. Differentiate between compounding and discounting method of time value of money.
Q6. List out any four limitations of financial ratio.
Q7. You are given the following information of Narayan Book Stores.
Total sales 26,000 unit, ordering cost Rs. 30, carrying cost 5% of purchase price of Rs. 50,
Calculate EOQ and average inventory.
Q8. The Shakti Gas Company has an inventory conversion period of 75 days, a receivable conversion period of 38 days and a payable deferral period of 30 days. Calculate the cash conversion cycle and operating cycle.
Q9. A perpetual bond sold at par, coupon interest rate of 8% and the tax rate 40%. Calculate after tax cost of debt.
Q10. Write the Du-Pont equation of ROA and ROE.

SECTION B: SHORT ANSWER QUESTIONS (6 X 8 = 48 MARKS)

Answer any SIX questions.

- Q11. "Financial management is an art and science of managing money in the organization". In the light of this statement, describe the function of financial management. [2+6]
Q12. What is financial ratio? Explain briefly the various usages of financial ratio. [2+6]
Q13. Differentiate between profit maximization and wealth maximization objectives of financial management. [8]
Q14. Complete the assets side of balance sheet and sales information in the table that follows financial data: [3+3+1+1]

Debt ratio	= 50%	Quick ratio	= 0.8 times
Total assets turnover	= 1.5 times	DSO	= 36 days
Gross profit margin	= 25%	Inventory turnover	= 5 times
Long term debt	= Rs. 60,000	Retained earnings	= Rs. 97,000

Cash
Account receivable
Inventories
Fixed assets
Total assets	Rs. 300,000
Sales

- Q15. Surkhet Transport Company has current assets of Rs. 800,000 and current liabilities of Rs. 500,000. What would be the effect of following transactions on the firm's current ratio?

- a) Two new trucks are purchased for a total of Rs. 100,000 in cash. [2]
 b) The company borrows Rs. 100,000 on short-term basis to carry on increase in receivables of the same amount. [2]
 c) Additional common stock of Rs. 200,000 is sold and the proceeds invested in the expansion of several terminals. [2]
 d) The company increases accounts payable to pay a cash dividend of Rs. 40,000 out of cash. [2]
- Q16. Compute the following:
 a) How many years will it take to double of sum at an 8% interest rate? [4]
 b) Which amount is worth more at 14%, Rs. 2,000 in hand today or Rs. 4,000 dues in 6 years? [4]
- Q17. The Surya trade link's EPS was Rs. 6.50 in 2002 and Rs. 4.42 in 1997. The company pays out 40% of its earning as dividends, and the stock sells for Rs. 36.
 a) Calculate the past growth rate in earnings. [3]
 b) Calculate the next expected dividend per share. [2]
 c) What is the cost of retained earnings for the company? [3]
- Q18. Find the present value of the following ordinary annuities:
 a) Rs. 400 per year for 10 years at 10%. [2]
 b) Rs. 400 per years for 5 years at 0%. [2]
 c) Now rework part (a) and (b) assuming that they are annuities due. [4]

SECTION C: LONG ANSWER QUESTIONS (2 X 16 = 32 MARKS)

Answer any **TWO** questions.

- Q19. Give the concept of working capital. Explain the various factors that affect the working capital of a business organization. [4+12]
 Q20. Prepare the cash flow statement from following Balance Sheet of XYZ Company for the year 2008. Net income for the year is Rs. 330,000. [6+4+6]

Assets	2007	2008	Liabilities	2007	2008
Cash	3,500	15,000	Accounts payable	9,000	7,500
Marketable Securities	0	5,500	Notes payable	1,500	7,500
Bills Receivable	15,000	11,000	Other current liabilities	7,500	3,500
Inventories	26,500	30,000	Long term debt	4,000	12,000
Gross Fixed Assets	37,500	62,500	Common Stock	14,500	28,500
Less: Accumulated Depreciation	12,500	17,500	Retained Earnings	33,500	47,500
Total	70,000	106,500	Total	70,000	106,500

- Q21. Project S costs Rs 15,000 and it is expected to produce benefits (cash flow) of Rs. 4,500 per year for 5 years and project R costs Rs. 37,000 and it is expected to produce (cash flow) of Rs. 11,000 per year for 5 years. Calculate the NPV, IRR and payback period for each project assuming a required rate of return of 14%. If the projects are independent which project/s should be selected? [6+6+4]