MID-WEST UNIVERSITY
SCHOOL OF MANAGEMENT (MUSOM)
(An Autonomous Institution)
MUSOM EXAMINATION SECTION
FINAL EXAMINATION-2025 (2081)
BACHELOR OF BUSINESS ADMINISTRATION (BBA)
SEMESTER – IV (New Course)

Subject: Financial Management-I | **Course Code: MGT 441**
Full Marks: 100 | **Time: 3 Hrs.**

Exam Roll No.: ....

Section A: Multiple Choice Questions (1×15 = 15 Marks) | **Time: 15 Minutes**

Tick (✓) the correct answers

1. The time period between placing an order and its receipt in stock is known as _______.
   a. lead time
   b. carrying time
   c. shortage time
   d. over time
2. Time value of money indicates that ___________________.
   a. a unit of money obtained today is worth more than a unit of money obtained in future
   b. a unit of money obtained today is worth less than a unit of money obtained in future
   c. there is no difference in the value of money obtained today and tomorrow
   d. None of the above
3. The intrinsic value of straight bond is ________________.
   a. the present value of interest
   b. the present value of maturity value
   c. the present value of market price
   d. the sum of present value of interest and maturity value
4. A perpetual bond has ___________.
   a. Fixed maturity period
   b. No maturity period
   c. 5-year maturity period
   d. 10-year maturity period
5. Which of the following ratio is measure of debt management?
   a. Inventory turnover
   b. Return on assets
   c. Debt ratio
   d. Return on equity
6. Which of the following is the acceptance rule of payback period?
   a. If PBP <= maximum cost recovery period (MCRP), accept the project.
   b. If PBP > maximum cost recovery period (MCRP), accept the project.
   c. If PBP > 0, accept the project.
   d. If PBP < 0, accept the project.
7. When ________ is greater than zero, the project should be accepted.
   a. internal rate of return
   b. profitability index
   c. net present value
   d. modified internal rate of return
8. Which financial instrument is a hybrid or a cross between common stock and debt because during bankruptcy it ranks below debt but above common stock?
   a. Municipal bond
   b. Treasury bond
   c. Preferred stock
   d. Retained earning

9. The current market price of common stock of Everest Bank Limited is Rs. 800, expected dividend is Rs. 30 per share, and constant growth rate is 10 percent. What is the investor's required rate of return?
   a. 12.75 percent
   b. 13.75 percent
   c. 10 percent
   d. 11 percent
10. What is the intrinsic value of zero coupon bonds which matures after 10 years and the required rate of return is 12 percent?
   a. 500.21
   b. 321.97
   c. 456.79
   d. 645.12
11. Which of the following is the most appropriate objective of the firm?
   a. Profit maximization
   b. Wealth maximization
   c. EPS Maximization
   d. none of the above
12. Which of the following decision is concerned with finding the potential sources of fund and raising of funds with optimal mix of debt and equity at minimum cost?
   a. Investment decision
   b. Financing decision
   c. Current assets management decision
   d. Dividend decision
13. As per ________ policy, excess amount of current assets should be kept in the firm to meet the target level of sales.
   a. aggressive
   b. conservative
   c. moderate
   d. none of the above
14. If the nominal rate of interest is 10% per annum and there is quarterly compounding, the effective rate of interest will be ___________ per annum.
   a. 10%
   b. 10.10%
   c. 10.25%
   d. 10.38%
15. If you wish to get Rs. 2,000 after 5 years. If bank pays 8% interest per annum, how much do you need to deposit now?
   a. 2,000
   b. 1,300.66
   c. 1,316.17
   d. 1,361.17

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You are required to answer in your own words as far as applicable. The figures in the margin indicate the full marks.

Section – B: Short Answer Questions (8 × 5 = 40 Marks)

Answer any eight questions:

1. Define the concept of financial management and its scope. [5]
2. What do you mean by agency problem? How the agency problem between shareholder and manager can be settled? [1+4]
3. The Hindelang Company has Rs. 1,312,500 in current assets and Rs. 525,000 in current liabilities. Its initial inventory level is Rs. 375,000 and it will raise funds as additional notes payable and use them to increase inventory. How much can Hindelang's short-term debt (notes payable) increase without pushing its current ratio below 2 to 1? What will be the firm's quick ratio after the Hindelang has raised the maximum amount of short term fund? [5]
4. Define ratio analysis. Explain the limitations of ratio analysis. [1+4]
5. Bageshwori Company just borrowed Rs. 25,000. The loan is to be repaid in equal installments at the end of each of the next 5 years and the interest rate is 10 percent. Set up an amortization schedule for the loan.
   a) What fraction of the payment made at the end of third year will represent repayment of principal? [2.5]
   b) What fraction of the payment made at the end of fourth year will represent the payment of interest? [2.5]
6. A rupee in hand today is worth more than a rupee to be received next year. Explain this statement with suitable examples. [5]
7. Everest Biscuit Company current stock price is Rs. 36, and its last dividend was Rs. 2.40. In view of company's strong financial position and its consequent low risk, its required rate of return is only 12 percent. If dividends are expected to grow at a constant rate in the future, and if required rate of return on stock is expected to remain at 12 percent, what is Company's expected stock price 5 years from now? [5]
8. Calculate the value of the following preferred stock
   a) A 15 percent preferred stock with Rs. 100 par value. Investors required rate of return is 12 percent. [2]
   b) A preferred stock of Rs. 100 par, 15 percent dividend with 5 years' maturity and required rate of return is 12 percent. [3]
9. Delta Computer Supplies Inc. must order floppy diskettes from its supplier in lots of one dozen boxes. Given the following information, complete the table below and determine the economic order quantity of floppy diskettes for Delta Computer Supplies Inc. [5]

   Annual Demand is 260,000 dozen
   Cost per order placed is Rs. 300
   Carrying cost is 20%
   Price per dozen is Rs. 7.80

Order Size (dozens)	2,500	5,000	10,000	20,000	130,000	260,000
No. of orders						
Average Inventory						
Carrying Cost						
Order Cost						
Total Cost						

10. Explain the components of cash conversion cycle. [5]

Section – C: Long Answer Questions (3 × 10 = 30 Marks)

Answer any three questions:

11. "Investing, financing and dividend decisions are the three major financial decision". Justify. [10]

12. Balaji Corporation comparative balance sheets at December 31 (Rs. in '000).

Balaji Corporation

Balance sheets at December 31st (Rs. in '000).

Assets	**2002**	**2003**	**Liabilities**	**2002**	**2003**
Current Assets:			**Current Liabilities:**		
Cash	84	98	A/c payable	312	344
A/c Receivable	165	188	Notes payable	231	196
Inventories	393	422	Total current liabilities	543	540
Total current assets	642	708	Long term debt	531	463
Net fixed assets	2731	2880	Shareholder's equity	500	550
			Retained earnings	1799	2035
Total Assets	**3373**	**3588**	**Current liabilities and shareholder's equity**	**3373**	**3588**

Balaji Corporation

Statement of income statement at 2003 December 31st (Rs. in '000).

Sales	2311
Cost of goods sold	(1344)
Depreciation	(276)
EBIT	691
Interest paid	(135)
Taxable income	556
Tax @ 44%	(244)
Net Income	312
Dividend paid	76
Addition to retain earnings	236

a) Prepare statement of cash flow [8]

b) Briefly summarize your findings [2]

13. Assume that it is now January 1, 2010 and you will need Rs. 1000 on January 1, 2014. Your bank compounds interest at an 8 percent annual rate.

a) How much must you deposit on January 1, 2011, to have a balance of Rs. 1000 on January 1, 2014? [2]

b) If you want to make equal payments on each January 1, from 2011 through 2014 to accumulate the Rs. 1000, how large must each of the 4 payments be? [2]

c) If your father offered either to make the payments calculated in past b or to give you a lump sum of Rs. 750 on January 1, 2011 which would you choose? [2]

d) If you have only Rs. 750 on January 1, 2011. What interest rate, compounded annually would you have to earn to have necessary Rs. 1000 on January 1, 2014? [2]

e) Suppose you can deposit only Rs. 186.29 each January 1 from 2011 through 2014, but you still need Rs. 1000 on January 1, 2014. What interest rate, with annual compounding must you seek out to achieve your goal? [2]

14. Pokhara Biscuits Industry's bond has a 9 percent coupon rate and Rs. 1000 face value. Interest is paid semi-annually, and the bond has 12 years to maturity. Currently the bond is selling at Rs. 1130.

a) What is the bond's semi-annual YTM? [8]

b) What is the bond's annual YTM? [1]

c) What is the effective YTM? [1]

15. What is working capital? What factors a firm may consider in financing working capital needed? [2+8]

Section – D: Case Study (15 Marks)

16. Your Company is considering two investment projects, each of which requires an up-front expenditure of Rs 25 million. You estimate that the cost of capital is 10 percent and that the investments will produce the following after-tax cash flows (in millions of rupee):

Year	1	2	3	4
Project A (Rs.)	5	10	15	20
Project B (Rs.)	20	10	8	6

a) What is the regular payback period for each of the projects? [4]

b) What is the discounted payback period for each of the projects? [3]

c) If the two projects are independent and the cost of capital is 10 percent, which project or projects should the firm undertake? [2]

d) If the two projects are mutually exclusive and the cost of capital is 5 percent, which project should the firm undertake? [2]

e) If the cost of capital is 10 percent, what is the modified IRR (MIRR) of each project? [4]