Mid-West University

Examinations Management Office

Surkhet, Nepal

Chance Examination-2082

Master of Business Studies (MBS)

Semester - III

Subject: Financial Management | Course Code: MGMT535

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 agency problem?
2. Mention the major importance of financial management.
3. Write the meaning of financial analysis.
4. What do you mean by liquidity ratio?
5. Why does the cost of retained earnings (internal equity) become lower than the cost of new equity (external equity)?
6. Why do we calculate the cost of capital?
7. What is discounted payback period?
8. What is ordering cost?
9. Define aggressive working capital policy.
10. How cash dividend differs from stock dividend?

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

Answer any THREE questions:

11. What do you mean by stock dividend? When do companies prefer to pay stock dividends rather than cash dividend? [3+5]
12. How is profit maximization objective different from wealth maximization objective of financial management? Explain. [8]
13. CG Electronics 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. CG Electronics Inc. has no preferred stock, and no common stock was issued during the year. If CG Electronics's year-end debt (which equals its total liabilities) was Rs 120 million, what was the company's year-end debt/assets ratio? [8]
14. The current trading price of the stock of Himal Hydropower Company is Rs 560. It has just paid dividend Rs 30 per share. The Co. expects 8 percent growth in its dividend. Himal Hydropower Company's before-tax cost of debt is 8 percent, and tax rate is 25 percent. Using the following balance sheet, calculate Himal Hydropower Company's after-tax weighted average cost of capital. [3+1+4]

Assets		Liabilities	
Cash	Rs. 800	Account payable	Rs. 100
Account receivable	200	Accrued taxes and due	200
Inventories	300	Long-term debt	1200
Plant and equipment, net	2000	Equity	1800
Total assets	Rs. 3,300	Total Liabilities	Rs. 3,300

15. Sarbottam Cement Company (SCC) expects next year's net income to be Rs 15 million. The firm's debt ratio is currently 30 percent. SCC has Rs 12 million of profitable investment opportunities, and it wishes to maintain its existing debt ratio. According to the residual distribution model (assuming all payments are in the form of dividends), how large should SCC's dividend payout ratio be next year? [8]

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

Answer any TWO questions:

16. a) What do you mean by ratio analysis? Explain the limitations of ratio analysis. [2+4.5]
b) Define cash management. Explain the objectives of holding cash in a firm. [2+4.5]

17. You are a financial advisor for the Surkhet Broadcasting Corporation. The director of capital budgeting of Surkhet Broadcasting Corporation has asked you to analyze two proposed capital investments Projects M and N. Each project has a cost of Rs. 555,000, and the cost of capital for each project is 14 percent. The projects' expected net cash flows are as follows:

Expected Net Cash Flows		
Year	Project M	Project N
0	(Rs. 555,000)	(Rs. 555,000)
1	175,000	177,700
2	155,000	177,700
3	250,000	177,700
4	100,000	177,700

a. Calculate each project's payback period, net present value (NPV) and internal rate of return (IRR) [10]
b. Which project or projects should be accepted if they are independent? [1.5]
c. Which project should be accepted if they are mutually exclusive? [1.5]

18. Nabadurga Hardware Inc. makes all sales on a credit basis, selling terms 2/10, net 30. Once a year it evaluates the creditworthiness of all customers. The evaluation procedure ranks customers from 1 to 5, with 1 indicating the "best" customer. Results of the ranking are as follows: [13]

Customers categories	Percentage of bad debt	Days sales outstanding	Credit decision	Add sales if credit extended to category
1	None	10	Unlimited credit	None
2	1	12	Unlimited credit	None
3	3	25	Limited credit	Rs 524,000
4	8	39	Limited credit	345,000
5	14	67	Limited credit	172,000

The variable cost ratio is 70 percent, and its marginal tax rate is 20 percent. The cost of capital invested receivables is 10 percent. What would be the effect on the profitability of extending unlimited credit to each of Categories 3, 4, and 5?

THE END