

Mid-West University
Examinations Management Office
Surkhet, Nepal
End-Semester Examination-2080
Bachelor of Business Studies (BBS)
Semester - II

Subject: Introduction to Finance - I
Full Marks: 60 Pass Marks: 30

Course Code: MGMT 423/323
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: VERY SHORT ANSWER QUESTIONS (10 X 1 = 10 MARKS)

Answer **ALL** the questions.

1. Write any four points of importance of financial management.
2. What do you mean by agency relationship?
3. A corporation has DSO of 50 days. The company's average daily sale is Rs. 20,000. What is the level of account receivable? (Assume 360 days in a year).
4. Write the meaning of Du Pont analysis. Explain with its equation.
5. How do you calculate the cost of debt with call provision?
6. Explain the various types of projects.
7. The following information are given below:

Annual requirement	50,000 units	Cost per unit	Rs.100
Cost per order	250	Carrying cost per unit	10% of Inventory cost.
8. What do you mean by annuity due?
9. Find the future value of an initial Rs. 5,000 compounded for 10 years at 8 percent.
10. The inventory turnover of A company is 6 times each year, it pays its suppliers on average 50 days, and collects from debtors on average 70 days. Find the cash conversion cycle.

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

Answer any **THREE** questions.

11. Write the meaning of time value of money and its importance. [2+6]
12. (a) Set up an amortization schedule for Rs. 70,000 loan to be repaid equal installments at the end of next 5 years, the interest rate is 10 percent. [5]
(b) If you deposit Rs. 15,000 at the end of each year for 5 years into a saving account that pays interest 8 percent per year. How much will you have at the end of 5 years, [3]
13. (a) Define the meaning of cost of capital with its components. [2+3]
(b) The Rara company was recently formed to manufacture a new product. The company has the following capital structure in market value term:

12% debenture	Rs. 6,00,000
10% preferred stock	Rs. 2,00,000
Common stock	Rs. 8,00,000

The common stock sells for Rs 25 a share, and company has the marginal tax rate of 40 percent. A study of publicly held companies in this line of business suggests that the required return on equity is about 17 percent for a company of this sort. Compute the firm's weighted average cost of capital. [3]
14. Complete the balance sheet and sales information (fill in the blanks) for D company using the following financial data. [8]

Debt/Net worth	1.5	Acid test ratio	0.4
Total assets turnover	1.5 times	Days sales outstanding	20 days
Gross profit margin	25%	Inventory turnover Ratio	5 times

Balance sheet

Assets	Amount	Capital & liabilities	Amount
Cash	?	Account payable	?
Account receivable	?	Common stock	10,000
Inventories	?	Retained earning	20,000
Plant and equipment	?		
Total Assets	?	Total Capital and liabilities	?
Sales	?	Cost of goods sold	?

15. Define the meaning of working capital and explain factor affecting size of working capital.

[2+6]

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

Answer any TWO questions.

16. What are the functions of financial management? Differentiate between profit maximization goal and wealth maximization goal of the firm.
17. The followings are the cash flows of equally risky Project X and Project Y:

[5+8]

Year	0	1	2	3	4	5
Project X	(4,00,000)	1,20,000	1,20,000	1,20,000	1,20,000	1,20,000
Project Y	(3,00,000)	1,50,000	1,00,000	80,000	80,000	90,000

Suppose you are the project manager and you have to recommend one of these projects for the approval of the board of directors. The required rate of return on these projects is 10 percent. Calculate the payback period, NPV and IRR of each project. Which project would you select if they are mutually exclusive?

18. Yash Corporation comparative balance sheet on December 31 (in million)

[2+5+6]

Balance sheet

Assets	2001	2002	Liabilities and shareholder's equity	2001	2002
Cash and equipment	5	3	Note payable	20	0
Account receivable	15	22	Account payable	5	8
Inventories	12	15	Accrued wages	2	2
Fixed assets, (net)	50	55	Accrued taxes	3	5
Other assets	8	5	Long-term debt	0	15
			Common stock	20	26
			Retained earnings	40	44
Total	90	100		90	100

Yash Corporation

The statement of income and retained earnings, year ended on December 31st, 2002 (in million)

particular	Rs.		Rs.
Sales			48
Cost of goods sold.....	25		
Selling and administrative expenses	5		
Depreciation.....	5		
Interest.....	2		
Net income before tax.....			11
Less: Taxes.....			4
Net income.....			7
Add: Opening retained earning			40
Total.....			47
Less: Dividend.....			3
Ending retained earning.....			44
Required: cash flow statement.			

[13]

THE END