MODEL QUESTION – 2022

BBS / 4 Years Programme / II Year **Fundamentals of Financial Management (MGT 215)**	**Full Marks :100** **Pass Marks : 35** **Time : 3 hrs.**

Candidates are required to give their answers in their own words as far as practicable. The figures in the margin indicate full marks.

Group – A

Brief Answer Questions.

Attempt *ALL* Questions. [10 x 2 = 20]

1. What do you mean by financing decision?
2. What is discounting, and how is it related to compounding?
3. Define the term coefficient of variation. What does it measure?
4. What is meant by capital structure?
5. Write the meaning of mutually exclusive project with example.
6. How does a firm's investment opportunity affect its dividend policy?
7. Annapurna company is expected to pay a Rs 15 per share dividend at the end of the year. The dividend is expected to grow at a constant rate of 8 percent a year forever. The required rate of return on the stock is 15 percent. What is the stock's current value per share?
8. A company's operating profit is Rs 500,000. It has 10% debenture worth Rs 2,000,000. The company has no preferred stock. What is the company's degree of financial leverage?
9. A company's expected sales is 30,000 units for this year. It has a policy of 10 days as a safety stock level and the lead-time is 15 days. What is the re-order point for the firm? Assume 360 days in a year.
10. Herbo Manufactring Company's inventory conversion period is 90 days, and an average collection period is 60 days. Account payable is paid approximately 30 days after they arise. Calculate the firm's operating cycle and cash conversion cycle.

Group – B

Descriptive Answer Questions.

Attempt any *FIVE* questions. [5 × 10 = 50]

11. What is working capital? Explain the major factors affecting size of working capital.
12. The management of Happy Tours & Travel Limited decided to buy a printer taking a loan of Rs 100,000 for 3 years from Bank of Kathmandu. The loan bears an annual interest of 10 percent and calls for equal annual installment payments at the end of each of the 3 years.
    a. Calculate amount of annual payment.
    b. Prepare loan amortization schedule.
    c. Calculate equal monthly installment (EMI). [3+4+3]
13. a. Describe the ratios used for analyzing short–term financial position of a firm. [5]
    b. Using the following information, complete the balance sheet that follows (Assume 360–day year in your calculation) [5]

Long–term debt to net worth	0.5 to 1	Total assets turnover	2.5 times
Average collection period	18 days	Gross profit margin	10%

Quick ratio 1 to 1

Inventory turnover (Cost of goods sold/Inventory) 9 times

Balance Sheet

Cash	——	Notes payable	Rs 100,000
Accounts receivable	——	Long-term debt	——
Inventory	——	Common stock	100,000
Plant and equipment	——	Retained earnings	100,000
Total assets	——	Total liabilities and equity	——

14. Suppose SS Company sold an issue of bonds with a 10-year maturity, a Rs 1,000 par value, a 12 percent coupon rate, and annual interest payments. Market interest rate is 15 percent.
    i. Calculate value of bond at present. Would you purchase the bond if it is trading at Rs 950.
    ii. If actual price of the bond in the market is Rs 1100, calculate approximate yield to maturity. [6+4]

15. Lalitpur Engineering Company (LEC) has the following capital structure, which it considers to be optimal:

Debt	25%
Preferred stock	15
Common equity	60
	100%

LEC's is in 40 percent tax bracket. Investors expect future earnings and dividends to grow at a constant rate of 5 percent per year forever. LEC paid a dividend of Rs 20 per share last year, and its stock currently sells for Rs 210 per share. New common stock can be sold for Rs 200 per share. Preferred stock can be sold with a dividend of Rs 12 to the public at a price of Rs 95 per share. Debt can be sold at an interest rate of 10 percent.

a. Calculate the cost of each capital component.
b. Calculate the weighted average cost of capital (WACC) assuming equity requirement is fulfilled from retained earnings only. [6+4]

16. Excel Sporting Company has reported the following information for the year 2021:

Net Income	Rs 5,000,000
Number of shares outstanding	100,000
Market price per share	Rs 300

Required:

a. The company had a 20 percent dividend payout ratio in 2020. If Excel wants to maintain this payout ratio in 2021, what will be its per-share dividend in 2021?

b. Compay had paid Rs 15 dividend per share in 2020. As an alternative to maintaining the same dividend payout ratio, Excel is considering maintaining the same per-share dividend in 2021 that it paid in 2020. If it chooses this policy, what will be the company's total dividend and dividend payout ratio in 2021?

c. If Excel declares 20 percent stock dividend instead of cash dividend in 2021, what will be number of shares outstanding and stock price after stock dividend? [3+3+4]

Group – C

Analytical Answer Questions.

Attempt any *TWO* questions. [2 × 15 = 30]

17. Describe the wealth maximization goal of a firm. Why is wealth maximization a superior goal to profit maximization? Explain. [5+10]

18. Consider the probability distribution of alternative rates of return associated with Stock A and Stock B given in the following table.

State of economy	Probability	Stock A	Stock B
1	0.3	10%	30%
2	0.4	15	20
3	0.3	20	10

a. Calculate the expected return and standard deviation of Stock A and Stock B.
b. What are the covariance and correlation coefficient between Stock A and Stock B?
c. If you form a portfolio of Stock A and Stock B comprising 40 percent wealth in Stock A and the rest in Stock B, calculate the risk and return your portfolio.
d. Would you investment in Stock A or Stock B or the portfolio? Why? [4+4+4+3]

19. Following are the cash flows of mutually exclusive projects:

Year	0	1	2	3	4
Project M (Rs)	(500,000)	200,000	200,000	200,000	200,000
Project N (Rs)	(500,000)	100,000	200,000	300,000	300,000

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 the projects is 10 percent.

a. Calculate the payback period, net present value (NPV) and internal rate of return (IRR) of each project.
b. Which project would you accept? Why?
c. Does any conflict exist in the results given by the above ranking methods? Which decision criterion would you follow if the confliction exists? Why? [10+2+3]

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