

POKHARA UNIVERSITY

Level: Bachelor
Programme: BBA/BI/TT
Course: Financial Management

Semester: Spring

Year: 2021

Full Marks: 100

Pass Marks: 45

Time: 3 hrs.

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

Section "A"

Very Short Answer Questions

Attempt all the questions. [10×2]

1. What do you understand by wealth maximization goal?
2. What is financial leverage? Mention its significance.
3. Differentiate between business risk and financial risk?
4. What are the features of common stock?
5. Himal Inc. has ICP of 60 days, Operating cycle of 96 days, and CCC of 35 days. Calculate its RCP and PDP.
6. The market price of Mega share is Rs.350, if company announced 3 for 2 stock splits, what will be market price of stock after stock split?
7. What do you mean by conversion value?
8. What are the motives of holding cash?
9. Why the market value of warrant is greater than its theoretical value?
10. What are the differences between merger and acquisition?

Section "B"

Descriptive Answer Questions

Attempt **any six** questions. [6×10]

11. a) What is agency problem? Give some examples of agency problem between shareholders and creditors? How they can be solved? [5]
b) Mergers and acquisition has been the trending issue in Nepalese financial sector nowadays. Explain the major benefits of M & A in the context Nepal. [5]
12. a) In the year 2020, Manaslu enterprises has earned net income of Rs.600000 and paid Rs.240000 as dividend. Last year (2021), the firm's net income of Rs.25,00,000. The firm currently has 50000 shares outstanding. The firm plans to make investments that require financing of Rs.2000000 in coming year. MC Inc. has a target debt-equity ratio of 1.
[5]
 - i. Calculate the amount of dividend if the firm adopts residual policy.
 - ii. Calculate the amount of dividend and dividend per share, if the firm wants to continue same dividend payout ratio of the year 2020.

iii. Why the firm uses residual dividend policy?

b) Sunshine Manufactures shareholders equity, December 30,2021:

| | |
|---------------------------------|-----------------------|
| Common stock @ Rs.100 par value | Rs.30,000,000 |
| Additional paid-in capital | 15,000,000 |
| Retained earnings | <u>55,000,000</u> |
| Shareholders' equity | <u>Rs.100,000,000</u> |

On December 31, Sunshine declared a 10 percent stock dividend. The price of the stock on December 30 was Rs.500. Reformulate the stockholders' capitalization accounts of the firm. [5]

13. Chemical Fertilizer Centre sells 240,000 bags of lawn fertilizer annually. The optimal safety stock (Which is on hand initially) is 1500 bags. Each bag costs centre Rs 8, inventory-carrying costs are 20 percent, and the cost of placing order with its suppliers is Rs 25.
- What is the economic order quantity?
 - What is the maximum inventory of fertilizer?
 - What is Centre's average inventory?
 - How often must the Centre order?
 - If lead-time is approximately 6 days, at what inventory level on order be made? Assume 360 days in a year.
14. Consider the following information of Himalayan noodles company.
Selling price = Rs.5, Variable cost = Rs.3 and Fixed cost Rs.24,000 including depreciation of Rs.8,000, Calculate;
- Operating BEP
 - Cash BEP
 - If desired profit is Rs.30, 000, how many units firm needs to sell?
 - If desired profit after tax is Rs.20, 000 and tax rate is 40 percent, how many units firm needs to sell?
15. Mt. Everest Company plans to issue 8 percent coupon, Rs.1000 par value, and 15 year convertible bond at par value. The bond is callable at Rs.1100. The bond may be converted into 25 shares of stock. Current market price of stock is Rs.32 per share. The stock price is expected to grow at a rate of 10 percent per year. Interest rate on similar risk non-convertible bond is 10 percent. The bonds are expected to be called when conversion value reaches 141.75 percent of par value.
- What is the conversion price?
 - Compute initial conversion premium.
 - Compute the straight bond value today and at the end of year 4.
 - Compute initial conversion value and conversion value at the end of year 4.
 - Compute the minimum price of convertible bond today and at the end of year 4.
16. GP corporation has credit sales of Rs.1000,000 on a term of 2/10 net 30.

Out of its credit customer 40 percent pay on 10th days of purchase and take discounts where as others customers pay on 40th days of purchases.

- a) What do you understanding about receivable management? Explain.
 - b) Calculate average collection period or DSO?
 - c) Calculate amount of account receivables?
 - d) If non discount taking customer pay on due date what should be the new DSO and account receivables?
17. The Nepal herbal company is attempting to establish a current assets policy. Fixed assets are Rs.500,000, and the firm plans to maintain a 60 percent debt to assets ratio. The interest rate is 8 percent on all debt. Three alternative current assets investment policies are under consideration are to carry current assets that total 30, 50 and 70 percent of projected sales. The company expects to earn 12 percent before interest and taxes on sales of Rs.5000, 000. Marginal tax rate is 40 percent. What is the expected return on equity under each policy?

Section "C"

Case Analysis

18. *Read the case situation given below and answer the questions that follow:*
[20]

Ridi Hydro power company needs machine for construction of a tunnel. One alternative is to lease the machine on 4 year contract for a lease payments of Rs.50, 000 a year and payments are made at end of the year. Alternatively it could purchase machine for Rs.200, 000 financing by a bank loan with interest rate of 10 percent and instalment are paid at end of year. The machine depreciated under MACRS 3-year property class. The cash salvage value of machine at end will be Rs.20, 000. The corporate tax rate is 30 percent.

- a) What are the main benefits of leasing and purchasing to user of assets?
- b) What is cost of leasing?
- c) What is cost of purchasing using table method?
- d) Should company lease or purchase the machine?
- e) Why company uses Kdt as discount rate in evaluating leasing and purchasing decisions?