Nepal College of Management

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Bachelor of Business Administration (BBA)

Mid-Term Examination Fall Semester, 2024

Year	: II	Semester	: I
Course Code	: FIN 301	Full Marks	: 10
Course Title	: Financial Management	Duration	: 10 minutes

Name: ____________________ **Reg. No.:** ____________________ **Sec:** _____

Section A

Answer all Questions. Encircle the most appropriate answer among the given choices.

[10×1 = 10]

1. Which of the following refers to the practice of purchasing enough shares in a company to threaten a takeover, compelling the owners to buy them back at a higher price to maintain control?
   a. Poison pill
   b. Greenmail
   c. Managerial incentive
   d. Executive stock option

2. Which of the following is the maximum growth rate a firm can attain without using any kind of external financing?
   a. Constant growth rate
   b. Variable growth rate
   c. Sustainable growth rate
   d. Internal growth rate

3. Agency problems may arise due to conflicts among stakeholders within a firm. In this context, who is considered a shareholder?
   a. Agent
   b. Owner
   c. Principal
   d. Manager

4. Which of the following is the return on equity (ROE) for a firm with a profit margin of 5%, an asset turnover of 1.25 times, and a debt-to-equity ratio of 1.50 times?
   a. 15.63 percent
   b. 9.37 percent
   c. 6.25 percent
   d. 8.00 percent

5. Which of the following is the major functions of financial management?
   a. Clerical decision
   b. Capital structure decision
   c. Marketing decision
   d. Production decision

6. Growth rate can be achieved with constant debt-equity ratio is called by which of the following?
   a. Sales growth rate
   b. Internal growth rate
   c. Sustainable growth rate
   d. Dividend growth rate

7. Which of the following is the variable used to balance the balance sheet?
   a. Sales variable
   b. Growth variable
   c. Plug variable
   d. Cost variable

8. Which of the following financial managers is responsible to the controller of the finance function in a public organization?
   a. Inventory manager
   b. Credit manager
   c. Liquidity manager
   d. Cost accounting manager

9. Which of the following best describes the primary role of a financial manager?
   a. Managing the day-to-day operations of the company
   b. Ensuring the company maximizes shareholder wealth
   c. Overseeing employee relations and welfare
   d. Developing marketing strategies to increase sales

10. Which of the following conditions must typically be met for a financial manager to receive performance shares?
    a. Achievement of specific financial targets, such as earnings growth, market price of share, etc
    b. Successful management of day-to-day operational tasks
    c. Reduction of employee turnover
    d. Completion of a certain number of years with the company

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Course Title	: Financial Management	Duration: 1hr 50mins

Section B
(Short Questions)

Answer any FOUR Questions. **[4 ×3 =12]**

1. Organizations facing financial challenges cannot achieve their goals without collaboration with the finance department, as no functional unit can operate effectively in isolation. Explain the role of a financial manager in publicly held companies in Nepal.

2. Just like the overall organizational structure, a firm has its own structure within the finance function. As one of the most critical units, various managers' report to the treasurer and controller, who in turn report to the CFO, and ultimately to the CEO. Policies flow from the CEO to the CFO and down to the unit-level managers. Describe the functions of the finance department and explain its organizational chart.

3. Every firm has various stakeholders, each expecting a satisfactory return from the organization. However, conflicting interests between the primary stakeholders—shareholders and managers—often lead to benefit-related issues. Explain how these conflicts arise and suggest strategies to minimize them, ensuring the organization can achieve its goals.

4. Bottlers Nepal is currently operating at only 80 percent of fixed asset capacity. Current sales are Rs 700,000 and fixed assets are Rs 580,000.
    a. What level of sales could the company have obtained if it had been operating at full capacity?
    b. If the company expects its sales to Rs 950,000, how large the increase in fixed assets would the company need in order to meet its target fixed assets to sales ratio?

5. Based on the following information, calculate the sustainable growth rate for bottlers Nepal:
    Profit margin = 5%
    Asset turnover = 2.25
    DE ratio = 0.55
    Payout ratio = 40%
    Debt = Rs 90,000
    Equity = Rs 70,000
    If it does grow at this growth rate, how much new borrowing will take place in the coming year?

Section C
(Long Questions)

Answer any TWO Questions. [2×5 = 10]

6. Many firms are established with the primary goal of maximizing profit. However, in today's business environment, profit maximization alone is not sufficient, as it fails to address the needs of all stakeholders. In contrast, the goal of value or wealth maximization overcomes the limitations of profit-focused strategies and is considered a superior objective for a firm. Compare and contrast these goals with examples, explaining why wealth maximization is more beneficial than profit maximization.

7. A firm has the following relationships. The ratio of assets to sales is 55%. The liabilities that increase spontaneously with sales are 15%. The profit margin on sales after taxes is 6%. The firm's dividend payout ratio is 40%.
   a. If the firm's growth rate on sales is 18% per annum, what percentage of the sales increase in any year must be financed externally?
   b. If the firm's growth rate on sales increases to 25% per annum, what percentage of the sales increase in any year must be financed externally?
   c. How will your answer to part (a) change if the profit margin increases to 8%?
   d. How will your answer to part (b) change if the firm's DPR is reduced to 10%?
   e. If the profit margin increases from 6% to 8% and the DPR is 20%, at what growth rate in sales will the external financing requirement percentage be exactly zero?

8. Neptun Computers makes bulk purchases of small computers, stocks them in conveniently located warehouses, and ships them to its chain of retail stores. Neptun's balance sheet as of December 31, 2023, is shown here.

Balance sheet as on 31, December 2023

Cash	Rs 3,500	Accounts payable	Rs 9,000
Receivable	26,000	Notes payable	18,000
Inventories	58,000	Accruals	8,500
Total current assets	87,500	Total current liabilities	35,500
Net fixed assets	35,000	Mortgage loan	6,000
		Common stock	15,000
		Retained earnings	66,000
Total assets	**122,500**	Total liabilities and equities	**122,500**

Sales for 2023 were Rs 350,000, while net income for the year was Rs 10,500. Neptun paid dividends of Rs 4200 to common stockholders. The firm is operating at full capacity. Assume that all ratios remain constant.

a. If sales are projected to increase by 30 percent during 2024, use the EFN equation to determine Neptun's projected external financing requirements.
b. Construct Neptun's proforma balance sheet for December 31, 2024. Assume that all external capital requirements are met by loan and are reflected in mortgage loans. Assume Neptun's profit margin and dividend payout ratio remain constant.
c. You are also required to show the percentage of external financing requirement.