

BUSINESS FINANCE

Time allowed – 2:15 hours

Total marks – 100

[N.B. - *The figures in the margin indicate full marks. Questions must be answered in English. Examiner will take account of the quality of language and of the way in which the answers are presented. Different parts, if any, of the same question must be answered in one place in order of sequence.*]

Marks

1. What is span of control in a business organization? Discuss the views of classic theorist Urwich on span of control. Write the factors which influence the span of control in a business. 3+3+4

2. What is price elasticity of demand? The price of an item is Tk. 1.20 per unit and annual demand is 800,000 units. Market research indicates that an increase in price of Tk. 0.10 (10 paisa) per unit will result in a fall in annual demand of 70,000 units. What would be the elasticity of demand when the price is Tk. 1.20. 4+6

3. What should be the aim of regulation of the accountancy profession? 6

4. One of your clients is planning to complain to the ICAB about work carried out by your firm and the fees the firm has charged. On which grounds may the client make a complaint to the ICAB? 6

5. What are the different types of business and non-business risks? Discuss in details. 8

6. (a) How are KPIs (Key Performance Indicators) used to measure performance of an organization? 5
(b) Discuss the theory in relation to human behavior as developed by McGregor. 5

7. Yellow Textile Company sells dresses for women and girls. The average selling price and variable cost for each product are as follows:

	<u>Women</u>	<u>Girls</u>
	Tk.	Tk.
Selling Price	28.80	24.00
Variable Cost	20.40	16.80

Fixed costs are Tk.38,400.

Required:

Calculate the breakeven point in units for each type of dress and also calculate the operating income of Yellow Textile, assuming the sales mix of women and girls is 2:1 and total sales of 9000 dresses.

5+5

8. (a) A firm's after – tax cost of capital of the specific source is as follows:
- | | |
|---------------------------|-------------|
| Cost of debt | 8 per cent |
| Cost of preference shares | 14 per cent |
| Cost of equity funds | 17 per cent |

(b) The following is the capital structure:

Source	Amount (Tk.)
Debt	300,000
Preference capital	200,000
Equity capital	500,000
Total	1,000,000

Required:

Calculate the Weighted Average Cost of Capital (WACC) using book value weights. 8

9. (a) How does the net present value model complement the objective of maximizing shareholders' wealth? 3

(b) Consider the following cash flows on two mutually exclusive projects:

Year	Project X Tk	Project Y Tk
0	50,000	65,000
1	30,000	29,000
2	25,000	38,000
3	20,000	41,000

The cash flows of project X are expressed in real terms, whereas those of project Y are expressed in nominal terms. The appropriate nominal discount rate is 15 percent and the inflation rate is 4 percent. Which project should you choose? 7

10. (a) What should be the aim of good cash management? 4

(b) A firm which purchases raw materials on credit is required by the credit terms to make payments within 30 days. On its side, the firm allows its credit buyers to pay within 60 days. Its experience reveals that it takes, on an average, 35 days to pay its accounts payable and 70 days to collect its accounts receivable. Moreover, 85 days elapse between the purchase of raw materials and the sale of finished goods, that is to say, the average age of inventory is 85 days. What is the firm's cash cycle and estimated cash turnover? 6+4

11. During the past five years, you owned two stocks that had the following annual rates of return:

Year	Stock ALPHA	Stock BETA
1	0.19	0.08
2	0.08	0.03
3	-0.12	-0.09
4	-0.03	0.02
5	0.15	0.04

Required:

Compute the arithmetic mean and standard deviation of annual rate of return from stock. For each stock, indicate which one is more desirable by this measure. 4+4