International Islamic University Chittagong

Department of Business Administration

Mid-Term Examination,Autumn-2023 Program: BBA

Course Code: FIN-2301 Course Title: Principles of Finance

Section:3MF

Time: **1 hour 30 minutes** Full Marks: 30

[Answer the following questions. Figures in the right margin indicate full marks.]

QN	Description of Questions	Marks	CLOs	H/L
1(a).	How can you define Agency conflict? Explain the mechanisms that encourage managers to act in the best interests of stockholders.	2.5		H
1(b).	Discuss what should be the ultimate goal of a firm. Why?	2.5		H
1(c).	Differentiate between physical asset market and financial asset market; Private market and public market; Spot market and future market	2.5	CLO1	L
1(d).	Distinguish between Investment Banking House and Financial Intermediaries. What are the major classes of Financial Intermediaries?	2.5		L
2(a).	Distinguish between Depreciation and Amortization.	1.5		L
2(b).	Give some examples of Operating Assets and Non-Operating Assets.	1.5		L
2(c).	In a Particular year Epic Properties had Tk.7.5 million as Operating Income (EBIT).The Company had net depreciation expense of Tk. 1.3 million, and interest expense of Tk.1 million, its corporate tax rate was 39% .The Company had Tk.14.5 million in current Assets and 4.5 million in non-interest-bearing liabilities, it has Tk.15.5 million in net plant and equipment. It estimates that it has an after-tax cost of capital of 10.5%. Assume that Epic's only non-cash item was depreciation.	7	CLO1	H

i. What was the company's net income for the year?
ii. What was the company's net cash flow?
iii. What was the company's net operating profit after taxes (NOPAT)?
iv. What was the company's operating cash flow?
v. If operating capital in the previous year was Tk.24 million, what was the company's free cash flow (FCF) for the year?
vi. What was the company's Economic Value Added (EVA)?

QN	Description of Questions	Marks	CLOs	H/L
3(a).	What important information does Liquidity ratios, Asset management ratios, Debt management ratios provide?	3	CLO3	L
3(b).	Data for Pure Oil Co. and its industry averages follow. The firm's debt is priced at par, so the market value of its debt equals its book value. Since dollars are in thousands, numbers of shares are shown in thousands too.	7		H

i. Calculate the indicated ratios for Pure and comment on the performance of Pure.
ii. Construct the DuPont equation for both Pure and the industry.

Pure Oil Company

Balance Sheet as of December 31, 2018 (in Thousands)

Assets	Tk.	Liabilities and equities	Tk.
Cash	150,500	Accounts payables	175,050
Accounts receivables	250,450	Notes payables	196,600
Inventories	125,300	**Total current liabilities**	371,650
Total current assets	**525,950**	Long term debt	200,000
Fixed assets	325,750	Equities	280,350

Total Assets	**852,000**	**Total Liabilities and equities**	**852,000**

Sales	1,278,000
COGS	872,400
Gross Margin	**405,600**
Depreciation	120,000
Expense	135,000
EBIT	**150,600**
Interest	81,600
EBT	**70,000**
Tax	28,000
Net Income	**42,000**

Ratios	**Industry average**	**Ratios**	**Industry average**
Current Ratio	2x	Quick Ratio	1.3x
DSO	35 days	Inventory turnover ratio	6.7x
Profit margin	2.5%	Total asset turnover ratio	1.92x
ROA	4.8%	ROE	12%
TIE	3x	Equity multiplier	2.5x

Or

(a). You have just obtained financial information (tk. in millions) for the last two years for Powell Panther Corporation. **Prepare a cash flow statement & statement of retained earnings for the latest year.** 7 H

Assets	**2002**	**2001**
Cash & marketable securities	12.0	10.0
Accounts receivable	180.0	150.0
Inventories	180.0	200.0
Total current assets	**372.0**	**360.0**
Net plant & equipment	300.0	250.0
Total assets	**672.0**	**610.0**
Liabilities & equities	**2002**	**2001**
Accounts payable	108.0	90.0
Notes payable	67.0	51.5
Accruals	72.0	60.0
Total current liabilities	**247.0**	**201.5**
Long term bonds	150.0	150.0
Total debt	**397.0**	**351.5**
Common stock (50 million shares)	50.0	50.0
Retained earnings	225.0	208.5
Common equity	**275.0**	**258.5**
Total liabilities & equities	**672.0**	**610.0**

CLO3

In 2002, Net income-\$77.0, Depreciation-\$30.0, Common dividends per share - \$1.21

(b). Juko incorporation has Tk.6.5 billion in Assets, and its tax rate is 40%. The company's basic earning power (BEP) ratio is 11percent, and its return on Assets (ROA) is 5 percent. What is Juko's time-interest earned (TIE) ratio? 3 H