

Bangladesh Open University
BBA Program
Semester: 221 (5th Level)

Course Title: Financial Management and Policy

Due on: 24 May, 2024

Instructions

- Answer the all questions in your own handwriting on A4 size white paper.
- Fill-in the cover page of your assignment with care.
- Enclose the photocopy of your ID Card with the assignment (next to the cover page).
- Don't make spiral binding. Instead, make soft binding.
- Submit the assignment to the respective course tutor and ensure his/her signature on your Assignment Acknowledgement Form (see page#3 of Semester Calendar).

Questions

1. (a) What roles do GAAP, and the FASB play in the financial reporting activities of public companies?
(b) Why are the notes to the financial statements important to professional securities analysts? Discuss.
(c) To what types of deviations from the norm should the analyst pay primary attention when performing cross-sectional ratio analysis? Why?
(d) Financial ratio analysis is often divided into five areas: liquidity, activity, debt, profitability, and market ratios. Differentiate each of these areas of analysis from the others. Which is of the greatest concern to creditors? Why?
2. (a) What is the financial manager's goal in selecting investment projects for the firm? Define the capital budgeting process, and explain how it helps managers achieve their goal.
(b) Explain the similarities and differences between NPV (Net Present Value), PI (Profitability Index), and EVA (Economic Value Added).
(c) Do the net present value (NPV) and internal rate of return (IRR) always agree with respect to accept–reject decisions? With respect to ranking decisions? Explain.
(d) Consider the following two mutually exclusive investments. Calculate the IRR. Which projects should be chosen? Why?

Year	Cash Flow (Project - A)	Cash Flow (Project - B)
0	(73,000)	(73,000)
1	38000	15,000
2	40,000	30,000
3	13,000	41,000

3. (a) What are sunk costs? What are opportunity costs? What effect does each of these types of costs have on a project's incremental cash flows?

- (b) How can currency risk and political risk be minimized when one is making foreign direct investment?
- (c) What three components of cash flow may exist for a given project? How can expansion decisions be treated as replacement decisions? Explain.

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Semester: 221 (5th Level)

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Due on: 12 July, 2024

Instructions

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Questions

1. (a) What is meant by the term leverage? Discuss how operating leverage, financial leverage, and total leverage are related to the income statement.
- (b) Mahdi Toys produces inflatable beach balls, selling 420,000 balls per year. Each ball produced has a variable operating cost of Tk.0.84 and sells for Tk. 1.00. Fixed operating costs are Tk. 28,000. The firm has annual interest charges of Tk. 6,000, preferred dividends of Tk. 20,000 and a 40% tax rate.
 - i) Calculate the operating breakeven point in units.
 - ii) Calculate the Degree of operating leverage (DOL)
 - iii) Calculate the degree of financial leverage (DFL)
 - iv) Calculate the degree of total leverage (DTL) and compare this with DOL & DTL calculated in part i) and ii).
2. (a) What are the two ways that firms can distribute cash to shareholders? Why do rapidly growing firms generally pay no dividends?
- (b) Describe different types of dividend policies with examples.
- (c) The dividend payout ratio equals dividends paid divided by earnings. How would you expect this ratio to behave during a recession? What about during an economic boom?
3. (a) What is the cost of capital? What role does the cost of capital play in the firm's long-term investment decisions? How does it relate to the firm's ability to maximize shareholder wealth?
- (b) What are the typical sources of long-term capital available to the firm?
- (c) How do the constant-growth valuation model and capital asset pricing model methods for finding the cost of common stock differ? Discuss.
- (d) Why is the cost of financing a project with retained earnings less than the cost of financing it with a new issue of common stock?