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ISLAMIC UNIVERSITY OF TECHNOLOGY (IUT)
ORGANISATION OF ISLAMIC COOPERATION (OIC)

DEPARTMENT OF BUSINESS AND TECHNOLOGY MANAGEMENT

Mid-Semester Examination

Summer Semester, A. Y. 2022-2023

Course No. : BTM 4201

Time : 1.5 hours

Course Title : Financial Management I

Full Marks : 75

Answer all 3 (three) questions. All questions carry equal marks. Marks of each question and corresponding CO and PO are written in the right margin within brackets.

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1. a) What does it mean to maximize the value of a corporation? In general terms, how is value measured? 5 (CO1)
(PO1)
- b) What are the three factors that determine value? How does each factor affect value? 5 (CO1)
(PO1)
- c) Can a firm sustain its operations by maximizing stockholders' wealth at the expense of other stakeholders? Describe this with a diagram. 5 (CO1)
(PO1)
- d) What is the Sarbanes-Oxley Act, and what does it focus on? 5 (CO1)
(PO1)
- e) What is corporate governance? How does corporate governance affect the returns generated for stockholders? 5 (CO1)
(PO1)
2. a) Interpret liquidity and solvency ratios. 5 (CO1)
(PO1)
- b) Describe the roles of financial reporting and financial statement analysis. 5 (CO1)
(PO1)
- c) Describe the objective of audits of financial statements, the types of audit reports, and the importance of effective internal controls. 5 (CO1)
(PO1)
- d) Describe general principles of revenue recognition and accrual accounting, specific revenue recognition applications (including accounting for long-term contracts, installment sales, barter transactions, gross and net reporting of revenue), and implications of revenue recognition principles for financial analysis. 10 (CO1)
(PO1)
3. a) Mathew Jones plans to pay for his son's college education for 4 years starting 8 years from today. He estimates the annual tuition cost at \$40,000 per year, when his son starts college. The tuition fees are payable at the beginning of each year. How much money must Jones invest every year, starting one year from today, for the next seven years? Assume the investment earns 10 percent annually. 5 (CO2)
(PO10)
- b) Bill Graham is planning to buy a security which pays a dividend of \$100 per year indefinitely, with the first payment to be received at $t = 4$. Given that the required rate of return is 10 percent per year compounded annually, how much should Graham pay today for the security? 5 (CO2)
(PO10)

- c) Sally Smith is a pension fund manager. According to her estimates, retirees will be paid benefits worth \$0.75 million per year, starting 12 years from now. There will be a total of 20 payments. Given a discount rate of 8 percent, calculate the present value of the payments today. 5 (CO2)
(PO10)
- d) John Anderson wants to save for his daughter's college tuition. He will have to pay \$50,000 at the end of each year for the four years that her daughter attends college. He has 8 years until his daughter starts college to save up for her tuition. Using a 7% interest rate compounded annually, calculate the amount Anderson would have to save each year for 8 years. 5 (CO2)
(PO10)
- e) An investor plans to buy a property worth \$200,000 for which he has agreed to 20 percent today as down payment. The remainder will be in the form of monthly payments over the next 15 years at 9 percent per year compounded monthly. Which of the following is most likely to be the monthly payment? 5 (CO2)
(PO10)