

SECTION A
Answer **all** questions

Question I

For each question, there are **FOUR** responses: **A, B, C** and **D**. Choose the corresponding letter of your response and **CIRCLE** it. If you change your answer, cross out the previous response clearly and circle your new answer. **NO** score will be awarded if you circle more than **ONE** letter.

[10]

1. Which institution is responsible for regulating financial stability in Bhutan?
 - A Bank of Bhutan Limited
 - B Ministry of Finance
 - C Royal Monetary Authority
 - D Royal Securities Exchange of Bhutan
2. What is the primary characteristic of a Treasury Bill?
 - A a facility for long-term consumer lending
 - B a long-term investment in corporate equity
 - C a short-term government borrowing instrument
 - D a tool for the promotion of financial services
3. Which marketing practice indicates a misleading representation of goods?
 - A selling lower priced goods in a sale
 - B falsely claiming limited stock to create urgency
 - C providing less detailed warranty information than competitors
 - D using a comprehensive description of product features
4. Which element significantly strengthens the impact of a business pitch?
 - A a compelling value proposition
 - B a database of historical tax records
 - C a detailed list of employee contracts
 - D a summary of current inventory levels
5. Which support service is most typically provided by a business incubation centre?
 - A collection of corporate taxes for the government
 - B long-term debt financing through commercial banks
 - C mentoring and technical assistance for entrepreneurs
 - D regulation of retail prices in the national market
6. Which activity is a core component of an operational plan?
 - A designing a national advertising campaign
 - B planning the required production resources
 - C preparing the annual corporate tax return
 - D setting the dividend policy for shareholders

7. Which cost is classified as direct labour cost?
- A salaries of factory safety supervisors
 - B wages paid to factory workers
 - C bonuses for directors
 - D commission paid to sales people
8. What is primarily measured by a business's working capital position?
- A the annual profitability of the enterprise
 - B the efficiency of the production workforce
 - C the liquidity position of the business
 - D the total market value of all fixed assets
9. A firm introduces automation in its production process, replacing several manual tasks.
- What is the most likely short-term impact?
- A decrease in production capacity
 - B decrease in product quality
 - C increase in capital expenditure
 - D increase in labour costs
10. A business has current assets of Nu. 150,000 and current liabilities of Nu. 200,000. It negotiates longer payment terms with suppliers.
- What does this action indicate?
- A an increase in the value of the firm's fixed assets
 - B a reduction in the overall operating costs
 - C an improvement in the firm's annual net profit
 - D an improvement in the liquidity position

SECTION B (30 MARKS)

Answer **all** questions

Question II

Norbu owns Norbu Fresh Dairy (NFD), a small dairy enterprise based in Paro. NFD produces fresh milk, yoghurt, and cheese for local households and hotels in Paro and Thimphu.

While demand surges during the peak tourist season, NFD experiences severe seasonal fluctuations. In winter, monthly revenue falls by 40%, but fixed overheads such as cattle feed, utility bills, and cold-storage facilities remain unchanged. This creates severe liquidity pressure and threatens operational survival.

Norbu is considering a Nu 500,000 investment in modernized processing machinery to satisfy growing order volumes from luxury hotels. However, he is unsure how to fund this capital expenditure while maintaining adequate working capital. He is considering three choices:

- Fund the machinery fully using retained profits.
- Shorten the working capital cycle by reducing inventory levels and tightening trade credit.
- Postpone the capital expansion until after the upcoming peak tourist season.

Norbu fears that expanding immediately could exhaust cash reserves and lead to insolvency, but delaying might allow competitor dairies to capture hotel contracts.

1. Identify **two** reasons why businesses need working capital. [2]

2. Explain **one** problem NFD may have due to seasonal fluctuations in demand. [2]

3. Analyse **one** effect of poor cash flow management on the long-term success of NFD. **[3]**

4. Evaluate whether NFD should expand production now or delay expansion. **[8]**

Question III

Read the following text relating to Lhamo Organics (LO) and answer all parts of the question.

Lhamo owns Lhamo Organics (LO), a business in Thimphu that delivers fresh organic vegetables to homes and hotels. Because her business in Thimphu is doing well, she wants to expand into Paro and Phuentsholing.

To buy delivery vans with cold storage and set up new storage hubs, LO needs Nu 500,000. Lhamo is preparing a business pitch to present to a private investor and a local business incubation centre.

The incubation centre offers support like business advice, training, and workspace. However, Lhamo still needs money. She does not have enough personal savings, so she is choosing between two options:

- **Option A (Bank Loan):** A bank loan at 12% interest per year. LO must pay Nu 11,100 every month, even if sales are low.
- **Option B (Private Investor):** An investor gives the full Nu 500,000. In return, the investor takes 30% ownership of LO and a seat on the board to help make decisions.

Table 3.1 shows the financial projections and ownership structure for LO under both options.

Financial / Business Metric	Current (Thimphu Only)	Option A: Bank Loan	Option B: Investor
Sales Revenue per Year	Nu 800,000	Nu 1,800,000	Nu 2,100,000
Operating Profit per Year	Nu 160,000	Nu 320,000	Nu 420,000
Loan Repayments per Year	Nu 0	Nu 133,200	Nu 0
Lhamo's Share of Ownership	100%	100%	70%
Financial Risk (Gearing Ratio)	0% (No debt)	52.6% (High risk)	0% (No debt)

Table 3.1: Financial Projections for LO

1. Identify **two** features of a business pitch.

[2]

2. Explain **one** way a business incubation centre can support LO. [2]

3. Analyse **one** problem Lhamo might face when managing the expansion of LO across three different locations. [3]

4. Evaluate whether Lhamo should finance the expansion using a bank loan or by selling a 30% share of LO to an investor. [8]

SECTION C (30 MARKS)
Answer **all** parts of the question

Question IV

Read the following text relating to Himalayan Herbal Products (HHP) and answer all parts of the question.

HHP is a manufacturing business in Punakha. It produces natural skincare products. HHP is planning to launch a new product line, requiring a Nu 600,000 investment in equipment.

The finance manager is choosing between two funding options: a bank loan (12% interest, creating a fixed Nu 20,000 monthly repayment) and owner's investment using personal savings.

To check if the project is feasible, the finance department gathered operational data for the month of January.

Table 4.1 shows the financial and operational data for HHP for January.

Operational / Financial Metric	Value
Selling Price per Unit	Nu 150
Variable Cost per Unit	Nu 90
Current Fixed Costs (per month)	Nu 210,000
Expected Sales Volume (January)	3,000
Opening Cash Balance (January 1)	Nu 30,000

Table 4.1: Financial and Operational Data for HHP (January)

Note: All sales are cash sales, and all variable costs are paid in the month of production.

1. Define the following terms:

a. Internal borrowing

[2]

b. Variable cost [2]

2. Calculate the following. Show your workings.

a. Contribution margin. [1]

b. Monthly break-even point in units. [2]

3. Study Table 4.1. Calculate the closing cash balance for the month of January. [3]

4. Analyse **two** factors HHP should consider when choosing between a bank loan and owner's investment.

[8]

5. Evaluate whether HHP should proceed with the expansion. Use the financial data and the cash flow forecast to support your answer.

[12]

