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Total number of printed pages : 02

MBA 202

2ND SEMESTER BACK EXAMINATION, 2016

FINANCIAL MANAGEMENT

BRANCH : MBA

QUESTION CODE : W347

Max marks: 70

Time: 3 Hours

Answer Question No.1 which is compulsory and any five from the rest.

[The figures in the right hand margin indicate marks]

Q.1 Answer the following : **2x10**

- (a) If you deposit Rs.10,000 today in a bank that offers 8% compound interest, in how many years, will this amount double ?
- (b) Mr. Anant purchases a bond whose face value is Rs.1000, maturity period 5 years completed with a nominal interest rate of 8%. The required rate of return is 10%. What is the price he should willing to pay now to purchase the bond ?
- (c) Explain the relationship between the required rate of interest (K_d) and the discount rate in case of bond.
- (d) If a stock is purchased for Rs.120 and held for one year during which a dividend of Rs.15 per share is paid and the price decreases to Rs.115, what is the return on the share ?
- (e) What is the approach which establishes a relationship between the required rate of return of a security and the systematic risks.
- (f) What is optimal capital structure ? Give example.
- (g) What are the three strategic elements in all capital budgeting decisions?
- (h) What is TEFR ? State its relevance.
- (i) What is cannibalization ? Does it involve any cost ?
- (j) Working capital cycle includes other two cycles. What are they ?

Q.2 (a) Mysore Lamps Ltd. Requires Rs.30 lakh to meet its quarterly cash requirements. The annual return on the marketable securities which are of the tune of Rs.30 lakh is 20%. The conversion of the securities into cash necessitates a fixed cost of Rs.3000 per transaction. Compute the optimum conversion amount. **10**

(b) What strategies are generally adopted to manage cash in a company.

Q.3 a) What is the meaning of 2/10 net 30 ? **10**
b) A company is considering relaxation of its credit policy. Such relaxation would increase the sales by Rs.15 million on which bad debt losses would be 10%. The contribution margin ratio for the firm is 20%. Average collection period is 40 days. Post tax cost of funds is 10%. The rate applicable is 30%. Assume 360 days in a year. Examine the effect of relaxing credit policy.

- Q.4 (a) Discuss different forms of dividends. **10**
(b) What are the main motivation of a stock split.
- Q.5 Explain at least two appraisal methods under DCF and Non DCF methods of investment appraisal. Discuss the relevant merits and demerits. **10**
- Q.6 Discuss the maximization principles in financial management. Which principle is most appropriate now a days ? Why? justify. **10**
- Q.7 What is WACC ? How do you compute WACC ? Explain what weights are generally used to compute WACC with an imaginary data. **10**
- Q.8 Write short notes (any two) : **10**
a) Evaluation of IRR
b) Episodic finance
c) Techniques to explain Time Value of Money.

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