

Registration No. :

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Total number of printed pages – 3

MBA
MGT 202

Second Semester Regular Examination – 2015

FINANCIAL MANAGEMENT

BRANCH : MBAR

QUESTION CODE : J 219

Full 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.*

1. Answer the following questions :

2 × 10

- If a person deposits Rs.1000 on an account that pays him 10% for the first 5 years and 13% for the following eight years, what is the annual compound rate of interest for 13 year period ?
- 'Generally individuals show a time preference for money'. Give reasons for such a preference.
- The dividend per share of Sky Jet Co. Ltd. has grown from Rs.3.5 to Rs.10.5 over last 10 years. The share is currently selling for Rs.75. Calculate Sky Jets' capitalization rate.
- What constitutes return on a single asset ? Should unrealized capital loss be included in the calculation of return ?
- A project costs Rs.10,000 with a life span of 5 years. The cash flow is Rs.5,000 per annum. The cost of capital is 10% and reinvestment rate is 12%, how would you appraise the project ?
- Explain how does the use of financial leverage result in increased financial risk of a business.
- What is meant by financial distress ? What are its costs ?
- Explain the bird-in-hand argument of dividend.

P.T.O.

- (i) ABC Company earns 20% rate of return. Its required rate of return is 12%. The company follows a conservative dividend policy ; it pays out only 25% of profits as dividend. Some directors feel that shareholders deserve more dividend and hence the company should increase its payout to 50%. Do you agree ? Give reasons.
- (j) Do you recommend that a firm should finance its current assets entirely with short-term financing ? Explain your answer.

2. A company whose current sales are Rs.3.00 lakhs per annum and ACP is 30 days wants to pursue a more liberal credit policy to improve sales as shown below :

| Credit Policy Policy | Increase in Collection period days | Increase in Sales (Rs.) |
|----------------------|------------------------------------|-------------------------|
| A | 15 | 12,000 |
| B | 30 | 18,000 |
| C | 45 | 30,000 |
| D | 60 | 36,000 |
| E | 90 | 40,000 |

The selling price per unit is Rs.5.00. Average cost is Rs.4.00 per unit and variable cost Rs.2.75 per unit. Required rate of return on additional investment is 20%. Select the appropriate credit policy. 10

3. What is working capital cycle ? How is it different from cash conversion cycle ? Why are these concepts important in working capital management ? Explain with illustration. 10

4. The current capital structure of Poly Co. Ltd. as on 31.03.2014 is as follows :

| | (Rs. Crore) |
|--|-------------|
| Share Capital (Rs.1000 par, 2 Crores shares) | = 200 |
| Share premium | = 100 |
| Reserves and Surplus | = 190 |
| | ----- |
| | 490 |
| | ----- |

The current market price of the company's shares is Rs.140 per share. The EPS for the year 2013 was Rs.17. The company has been paying a constant dividend of Rs.6.50 per share for the last 10 years.

What shall be the effect on ERS, dividend, share price and the capital structure if the company ?

(i) Splits its shares two for one

Or

(ii) Declares a bonus issue of one for twenty ? 10

5. A Company's current dividend is Rs.5/-. It expects a super normal growth period running to 5 years and growth rate would be 25%. Thereafter, company expects normal growth rate of 8%. The investors' required rate of return is 15%. Calculate the value of share. 10
6. Explain the merits and demerits of the time adjusted methods of evaluating the investment projects. 10
7. Do you feel that profit maximization objective is no more valid for a modern financial manager ? Why ? Explain the alternative before him. 10
8. Write short notes on any **two** of the following : 5×2
- (a) Motives of holding cash
 - (b) Arbitrage process.
 - (c) Operating Leverage Vs Financial Leverage.
 - (d) Long term sources of funds.

