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MBA
MGT 202

Second Semester Regular Examination – 2014

FINANCIAL MANAGEMENT

BRANCH(S) : MBA

QUESTION CODE : F 484

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

- What is the relevance of compounding and discounting in the analysis of Time Value of money ?
- An investment doubles in 7 years. What is the rate of interest compounded annually ?
- The beta of XYZ Ltd. is 0.75. The market portfolio is expecting a return of 15%. The risk-free rate of interest in the market is 9%. Find the cost of equity.
- Explain with example Stock Split.
- If a company pays out dividend less than that the previous year what would it signal in the market ?
- What do you mean by cash-conversion cycle ?
- Deduce the formula ; $F = P(1 + r)^n$ where P is Principal amount, r is rate of interest and n is number of years of investment and F is future value of the investment.
- The firm changes the credit terms from "2/10, net 30" to "3/10, net 30". What will be its impact on the firm's receivables ?

P.T.O.

- (i) What is factoring service ? Which organizations provide these services in India ?
- (j) Why are capital budgeting decisions so important for a firm ?

2. The following is the Capital Structure of a company :

	Rs. in lakh
1. Equity Capital	200
2. 14% Preference share (Rs.100 each)	100
3. Retained earnings	100
4. 12% Debentures (Face Value Rs.100)	300
5. 11% Term Loan from ICICI	50

- (i) The Market Value of equity share is Rs. 32. The company expects to declare a dividend of Rs. 2/- per share. There shall be a growth in the dividend @ 10% for next 5 years.
- (ii) Preference shares are redeemable at a premium of Rs. 5 per share after 8 years and are currently traded at Rs. 84 in the market.
- (iii) Debenture redemption will take place after 7 years at a premium of Rs. 5/- and current market price is Rs. 90/-.
- (iv) Corporate tax rate is 40%.

Compute the WACC. 10

3. What are the basic objectives of financial management ? Explain why is wealth maximization principle superior to profit maximization. 10
4. What is working Capital ? Explain the determinants of working capital. 10
5. (a) Cash Ltd. estimates its total cash requirement of Rs. 8 lakh next year. The company's opportunity cost of funds is 15% per annum. The company will have to incur Rs. 600 per transaction when it converts its short term securities into cash. Determine the optimum cash balance according to Baumol Model. 5

- (b) Total sales of firm is Rs. 62,50,000/-, cash sales is 20% of sales. Variable cost is 85% of sales. Fixed Cost is Rs. 3,12,500. Bad debt is 5%. The firm has a credit policy of 3/24 net 40.25% of credit customers avail cash discount facility. Required rate of return is 12%. Find the opportunity cost of investment in receivables. 5
6. The EPS of a firm is Rs.10. The equity capitalization rate is 20%. The Internal rate of return on retained earnings is 10% using Gordon's formula : 10
- (a) What should be the optimum payment ratio of the company ?
- (b) What should be the price of share at optimum pay out ratio ?
- (c) Suppose the firm pays out 80%, will it affect the price of the share ?
7. Discuss the relative importance of different long term sources of funds. 10
8. Write short notes on any **two** : 5×2
- (a) Operating cycle
- (b) Financial Leverage
- (c) Motives of holding cash
- (d) Financial Decisions.

