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Examination May-2014
FINANCIAL MANAGEMENT
MBA-205
Paper ID : C0250

Time Allowed : 03 Hrs.

Max. Marks : 60

Instructions to Candidates:

Attempt the following question as per instruction.

Section –A

(2X10=20 Marks)

Q.1 Attempt any four question

- (a) How to calculate Valuation of convertibles.
- (b) What is internal Rate of return?
- (c) What is Gordon model ?
- (d) What is factoring and its importance?
- (e) Operating cycle.
- (f) Relationship between risk & return.

Section –B

Attempt one question from each units each unit carries 8 marks

Mark 32

Unit- I

Q.II. The responsibility of finance manager is now regarded as much more than mere procurement of funds. What do you think are the other responsibilities of finance Manager?

- Q.III.** a) depreciation and retained earning are the internal sources of finance .Discuss
b) Debenture capital is the cheapest source of funds Discus.

Unit- II

Q.IV. a) what is risk adjusted discount rate?

What are its advantages and limitations?

- b) In what way does the decision tree analysis handle the risk of the project?

Q.V. i) From the following information determine the expected rate of return

	Green Valley		Skyiark	
	₹	Pro	₹	Pro
Investment (₹)	1,00,000		1,00,000	
Return(%)				
Pessimistic	19	0.3	12	0.3
Most likely	18	0.4	18	0.4
Optimistic	24	0.3	29	0.3

ii) A company has 2000000 6% debentures outstanding today. The company has to redeem the debentures after 5 years and establishes a sinking fund to provide funds for redemption. Sinking fund investments earn interest @ 10% p a. The investments are made at the end of each year. What annual payment must the firm make to ensure that the needed ₹ 20,00,000 is available on the designated date?

Unit III

QVI. How does the traditional view of the capital structure differ from net income approach and net operating income approach? Explain.

QVII. A Company provides the following information to you

equity earning ₹ 4,00,000

Dividend paid ₹ 2,20,000

Price earnings ratio (PE Ratio) -8

Required rate of return is 15 per cent

- (a) determine whether the company's D/P ratio is optimal according to waiter. The company's paid up equity share capital is ₹ 40,00,000 with face value of ₹ 100 per share. It is expected to maintain its current rate of earnings on total assets.
- (b) What should be the P/E ratio at which the dividend payout ratio will have on impact on the share price?
- (c) Will your decision change if the P/E ratio comes down by 2?

QVIII. Proforma cash sheet of a company provides the following particulars.

Material 40%

Direct Labour 20%

Overheads 20%

The following information is also available to:

- (a) It is proposed to maintain a level of activity of 200000 units.
- (b) Selling price is ₹ 12 per unit.
- (c) Raw materials are expected to remain in store for an average period of one month.
- (d) Materials will be in process on an average half a month
- (e) Finished goods are required to be in stock on average period of one month.
- (f) Credit allowed to debtors is two month.
- (g) Credit allowed by suppliers is one month. Estimate working capital required.

Section-C

Marks 8

QIX. Attempt the following question

You are a financial analyst for XYZ company ltd. The director of capital budgeting has asked to analyse two proposed capital investments project P and Q. each project has a cost of 10 lakhs as the cost of capital for each project 12% . The project's expected net cash flows are as follows:

Expected net cash flows

Year	project 'P' ₹	project 'Q' ₹
0	(10,00,000)	(10,00,000)
1	650000	350000
2	300000	350000
3	300000	350000
4	100000	350000

Required :

- (a) calculate each project's payback period NPV and IRR.
- (b) Which project or projects should be accepted. If they are independent?
- (c) Which project should be accepted if they are mutually exclusive?
- (d) How might a change in the cost of capital (K_0) produce a conflict between the NPV and IRR ranking of these two projects? Would this conflict exist if ' K_0 ' were 5%?
- (e) Why does the conflict exist?

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