



# JK Lakshmipat University, Jaipur

## Institute of Management



END TERM EXAMINATION, APRIL-2015

MBA (FT) Semester II

Course: Financial Management

MM: 50 Marks

Subject Code: MBA 201

Time: 3 Hours

Attempt any three questions from Section A. Section B is compulsory. All questions and their parts carry equal marks. Financial Tables would be provided on demand.

### Section A

Q1. Discuss the nature, scope and function of financial management. Discuss the supporting role provided by finance function in an organization.

Q2. (i) Discuss the characteristic features of equity, preference and debentures.

(ii) Mr. Anish, aged 40 years now, has two choices before him. In the first choice, he will start receiving a pension of Rs.48,000 per year when he turns 60. The payment will continue for next 30 years. In the second case, he would receive a lump-sum of Rs.4 Lakhs at 60 years of age which he can invest to generate pension for himself for the same period. Which option is better for Mr. Anish, assuming money is worth 12 per cent per year?

OR

Q2. (i) What are the different methods of equity valuation.

(ii) The current market price of a company's share is Rs.80 and the expected dividend per share next year is Re.3. The company's payout ratio is 40 per cent and the internal rate of return is 10 per cent. What is the company's cost of equity.

Q3. Write short notes on any two of the following:

- (i) Balanced Scorecard
- (ii) Dividend Policy
- (iii) Capital Structure Theories
- (iv) ABC Analysis and VED Analysis
- (v) Financial and Operating Leverages

Q4. What do you understand by Working Capital Management? Explain the following concepts in WCM: (i) Gross Working Capital, (ii) Net Working Capital, (iii) Operating Cycle, (iv) Matching Principle, and (v) Maximum Permissible Bank Finance.

OR

(P.T.O.)

**Q4.** (i) Find the Yield To Maturity (YTM) of a 12 percent , 10-year, Rs.1000 face value bond which is quoting at Rs.936 in the market and has five years to redemption.

(ii) The stock market and a leading mutual fund returns are expected to be as follows:

| Economic Conditions | Probability | Market return (%) | Mutual Fund (%) |
|---------------------|-------------|-------------------|-----------------|
| Growth              | 0.30        | 20                | 16              |
| Decline             | 0.40        | -15               | -6              |
| Stagnation          | 0.30        | 8                 | 10              |

Which amongst the Market or Mutual Fund gives better returns and which is more riskier?

**Q5.** Differentiate between any two of the following:

- (a) Bonus Issue versus Stock Split
- (b) Payout Ratio and Retention Ratio
- (c) DCF and Non-DCF techniques of Capital Budgeting

### Section B

**Q6.** (i) Define the relationship between Risk and Return.

Why do fixed income securities have lower risk compared to variable income securities? Explain.

(ii) Compute the beta of Wonderland Ltd. from the following information:

|                           |    |   |    |    |    |    |   |    |
|---------------------------|----|---|----|----|----|----|---|----|
| Return of Market Index    | 10 | 8 | 12 | 21 | 15 | 11 | 9 | 10 |
| Return of Wonderland Ltd. | 3  | 8 | 6  | 15 | 10 | 6  | 8 | 4  |

**Q7.** The expected cash flows of a project are as follows:

|           |           |        |        |         |         |         |
|-----------|-----------|--------|--------|---------|---------|---------|
| Year      | 0         | 1      | 2      | 3       | 4       | 5       |
| Cash Flow | -3,50,000 | 50,000 | 75,000 | 100,000 | 150,000 | 225,000 |

The cost of capital is 12 percent. Calculate the following: (a) Net Present Value, (b) Benefit Cost Ratio / Profitability Index, (c) Internal Rate of Return, (d) Payback Period, and (e) Discounted Payback Period.

**ALL THE BEST!!!**