Printed Page:-

Subject Code:- AMBA0204Z

Roll. No:

NOIDA INSTITUTE OF ENGINEERING AND TECHNOLOGY, GREATER NOIDA

(An Autonomous Institute Affiliated to AKTU, Lucknow)

MBA

SEM: II - THEORY EXAMINATION (2021 - 2022)

Subject: Financial Management

Time: 3 Hours Max. Marks: 100

General Instructions:

1. The question paper comprises three sections, A, B, and C. You are expected to answer them as directed.
2. Section A - Question No- 1 is 1 marker & Question No- 2 carries 2 marks each.
3. Section B - Question No-3 is based on external choice carrying 6 marks each.
4. Section C - Questions No. 4-8 are within unit choice questions carrying 10 marks each.
5. No sheet should be left blank. Any written material after a blank sheet will not be evaluated/checked.

SECTION A 20

1. Attempt all parts:-

1-a. Financial management mainly focuses on (CO1) 1

(a) Efficient management of every business

(b) Brand dimension

(c) Arrangement of funds

(d) All elements of acquiring and using means of financial resources for financial activities

1-b. The value of EBIT at which EPS is equal to zero is known as (CO1) 1

(a) Break-even point

(b) Financial break-even point

(c) Operating break-even point

(d) Overall break-even point

1-c. Comparing two otherwise equal firms, the beta of the common stock of a levered firm is _____________ than the beta of the common stock of an unlevered firm. (CO2) 1

(a) equal to

(b) significantly less .

(c) slightly less

(d) greater

1-d. The common stock of a company must provide a higher expected return than the debt of the same company because (CO2) 1

(a) There is less demand for stock than for bonds.

(b) There is greater demand for stock than for bonds.

(c) There is more systematic risk involved for the common stock.

(d) There is a market premium required for bonds.

1-e. CAPM stands for. (CO3) 1

(a) Capital asset pricing model

(b) Capital amount printing model.

(c) Capital amount pricing model.

(d) Capital asset printing model

1-f. Earnings per share = (CO3) 1

(a) Number of Equity shares / (Profit after tax – Preference dividend)

(b) (Profit after tax – Preference dividend) / Number of Equity shares

(c) (Profit after tax + Preference dividend) / Number of Equity shares

(d) Number of Equity shares / (Profit after tax + Preference dividend)

1-g. Finance Function comprises (CO4) 1

(a) Safe custody of funds only

(b) Expenditure of funds only

(c) Procurement of finance only

(d) Procurement & effective use of funds

1-h. In the real world, we find that dividends (CO4) 1

(a) Usually exhibit greater stability than earnings.

(b) Fluctuate more widely than earnings.

(c) Tend to be a lower percentage of earnings for mature firms.

(d) Are usually changed every year to reflect earnings changes.

1-i. _____________is the first development financial institution in India. (CO5) 1

(a) IDBI

(b) ICICI

(c) IFCI

(d) RBI

1-j. The financial Market where debt and stocks are traded and maturity period is more than a year is classified as: (CO5) 1

(a) Shorter term Markets

(b) Capital Markets

(c) Counter Markets

(d) Long-term Markets

2. Attempt all parts:-

2.a. Give full form of IRR. (CO1) 2

2.b. Define cost of capital. (CO2) 2

2.c. Discuss three major factors which affect the financing decision of a firm. (CO3) 2

2.d. Define retained earning. (CO4) 2

2.e. Give the name of two securities of capital market. (CO5) 2

SECTION B 30

3. Answer any <u>five</u> of the following:-

3-a. Explain the concept of profit maximization v/s wealth maximization. (CO1) 6

3-b. Explain the objectives of financial management. (CO1) 6

3-c. Assuming that a firm pays tax at 40 percent, compute the after-tax cost of capital in the following cases. (CO2) 6

(i) A perpetual bond sold at par, coupon rate of interest being 7 percent.

(ii) An ordinary share selling at a current market price of Rs 120, and paying a current dividend of Rs 9 per share, which is expected to grow at a rate of 8 percent.

(iii) A 8.5 percent preference share sold at par.

3-d. Explain pay-back period. Also discuss the utility of the pay-back period in determining the IRR. (CO2) 6

3.e. A textile company has EBIT of Rs. 3,20,000.Its capital structure consists of the following securities : (CO3) 6

Rs. 10% Debentures 10,00,000

12% Preference shares 2,00,000

Equity shares of Rs. 100 each 8,00,000

The company is in the 35 percent tax bracket.

a) Determine the EPS

3.f. Explain Gordon Model of Dividend Policy. (CO4) 6

3.g. Write a short note on Reserve Bank of India. (CO5) 6

SECTION C 50

4. Answer any one of the following:-

4-a. Discuss the functions of financial management in an organization. (CO1) 10

4-b. (i) Calculate the present value of Rs 800 (a) received one year from now; (b) received at the end of five years; (c) received at the end of fifteen years. Assume a 5 percent time preference rate. 10

(ii) Determine the present value of Rs 600 each paid at the end of each of the next six years. Assume an 8 percent time preference rate.

(iii) Assuming 10 percent discount rate, compute the present value of Rs1100, 900, 1500, and 700 each paid at the end of one through four years. (CO1)

5. Answer any one of the following:-

5-a. A company has 10% redeemable preference share which are redeemable at 6the end of 10thyear from the date of issue. The underwriting expenses are expected to 2%. Find out the effective cost of preference share capital. (CO2) 10

5-b. Define NPV method of capital budgeting. (CO2) 10

6. Answer any one of the following:-

6-a. List the components of capital structure. (CO3) 10

6-b. A company needs Rs 500,000 for the construction of a new plant. The following three financial plans are feasible: (i) The company may issue 50,000 ordinary shares at Rs10 per share. (ii) The company may issue 25000 ordinary shares at Rs 10 per share and 2500 debentures of Rs100 bearing an 8 percent rate of interest. (iii)The company may issue 25000 ordinary shares at Rs 10 per share and 2500 preference shares at Rs 100 per share bearing an 8 percent rate of dividend. 10

If the company's earnings before interest and taxes are Rs 10,000, Rs 20,000 Rs 40,000, Rs 60,000, Rs 100,000, What are the earnings per share under each of the three financial plans. Which alternative you recommend and why? (CO3)

7. Answer any one of the following:-

7-a. Explain the advantages and disadvantages of stock dividend. (CO4) 10

7-b. Differentiate between Walter and Gordon's Model and solve the numerical given below: 10

A company has a total investment of Rs 500,000 outstanding ordinary shares at Rs 10 per share(par value). It earns a rate of 15 percent on its investment and has a policy of retaining 50 percent of the earnings. If the appropriate discount rate of the firm is 10 percent, determine the price of its share using Gordon's model. What shall happen to the price of the share if the company has a payout of 80 percent or 20 percent. (CO4)

8. Answer any one of the following:-

8-a.	“Capital market and money market are the part of financial market.” Comment. (CO5)	10
8-b.	Explain the history of Mutual Funds in India and role of SEBI in mutual funds industry. (CO5)	10