

MANMOHAN TECHNICAL UNIVERSITY
Model Question
BBALLB /Third Semester/ Financial Management

Time: 3 hrs

Full Marks: 60

Pass Marks: 24

Group – A (10X1=10)

Multiple Choice Questions (*Attempt all questions*)

1. What is not a part of Investment decision in financial management?
 - A. Dividend Payout decision
 - B. Working Capital Management
 - C. Capital Budgeting Decisions
 - D. Payable Management

2. Finance function involves:
 - A. Procurement of finance only
 - B. Expenditure of funds only
 - C. Safe custody of funds
 - D. Procurement and effective utilization of funds

3. Time value of money explains that:
 - A. A unit of money received today is worth more than a unit received in future
 - B. A unit of money received today is worth less than a unit received in future
 - C. A unit of money received today and at some other time in future is equal
 - D. None of them

4. Discounting technique is used to find out:
 - A. Terminal Value
 - B. Compounded Value
 - C. Present Value
 - D. Future Value

5. External sources of finance do not include:
 - A. Overdrafts
 - B. Debentures
 - C. Leasing
 - D. Retained Earnings

6. Capital budgeting is a part of:
- A. Investment decision
 - B. Working capital management
 - C. Marketing management
 - D. Capital structure
7. A profitability index (PI) of .95 for a project means that:
- A. The project's costs (cash outlay) are (is) less than the present value of the project's benefits
 - B. The project's NPV is greater than zero
 - C. The project's NPV is less than 1
 - D. The project returns 92 cents in present value for each current rupee invested (cost)
8. In case of risky projects, the required rate of return would generally be:
- A. Higher
 - B. Lower
 - C. Same as for others
 - D. None of the above
9. Marginal cost of capital is the cost of:
- (a) Additional Sales,
 - (b) Additional Funds,
 - (c) Additional Interests,
 - (d) None of the above.
10. Firm's Cost of Capital is the average cost of:
- (a) All sources,
 - (b) All borrowings,
 - (c) Share capital,
 - (d) Share Bonds & Debentures.

Group – B (8 × 4 =32)

Descriptive Answer Questions:

1. The management of Mountain Resort Pvt. Ltd. decided to buy a printer taking a loan of Rs 100,000 for 3 years from City bank. The loan bears an annual interest of 10 percent and calls for equal annual installment payments at the end of each of the 3 years.
- a. Calculate amount of annual payment.
 - b. Prepare loan amortization schedule.

2. Assume that 1 year from now you plan to deposit Rs 1,000 into a savings account that pays a nominal rate of 8 percent.
 - a. If the bank compounds interest annually, how much will you have in your account 4 years from now?
 - b. What would your balance be 4 years from now, if the bank used quarterly compounding rather than annual compounding?
3. a) A company's operating profit is Rs 500,000. It has 10% debenture worth Rs 2,000,000. The company has no preferred stock. What is the company's degree of financial leverage?

 b) Herbo Manufacturing Company's inventory conversion period is 90 days, and an average collection period is 60 days. Account payable is paid approximately 30 days after they arise. Calculate the firm's operating cycle and cash conversion cycle.
4. City bank has just issued 10 percent coupon bonds on the market with 15 years to maturity. Bonds have par value Rs 1,000. The bonds make annual payment and currently sell for Rs 900. What is the current yield? What is yield to maturity of this bond?

Or,

Suppose SS Company sold an issue of bonds with a 10-year maturity, a Rs 1,000 par value, a 12 percent coupon rate, and annual interest payments. Market interest rate is 15 percent. Calculate value of bond at present. Would you purchase the bond if it is trading at Rs 950?

5. Mega Company recently paid a dividend D_0 of Rs 40. The dividend is expected to grow at the rate of 10 percent per year for the next 3 years. There after dividend is expected to grow at a constant rate of 8 percent per year forever. The firm's cost of equity is 18 percent. What is the stock's intrinsic value today, (P_0)?
6. a) Stock Y has a beta of 1.45 and expected return of 17 percent. If the risk free rate is 6 percent and market risk premium is 7.5 percent. Is the stock correctly priced?
 b) The New Kanchan Company's current EPS is Rs 6.50. It was Rs 4.42 five years ago. What was the past growth rate in earnings?

Or,

The Everest Trading Company has operating profit of Rs 40,000, interest expenses of Rs 6,000 and preferred dividend of Rs 8,000. If it pays taxes at the rate of 25 percent, what is its financial BEP?

7. Himalaya Company expects next year's net income to be Rs 12 million. The firm's current debt ratio is 60 percent. Himalaya has Rs 15 million of profitable investment opportunities, and it wishes to maintain its existing debt ratio. According to the residual dividend model, how large should company's dividend payout ratio be next year?
8. Answer the following questions in one sentence.
 - a. What do you mean by financing decision?

- b. What is meant by capital structure?
- c. Write the meaning of mutually exclusive project.
- d. How does a firm's investment opportunity affect its dividend policy?

Group – C (2 × 9 =18)

Analytical Answer Questions

9. Following are the cash flows of mutually exclusive projects:

Year	0	1	2	3	4
Project M (Rs)	(500,000)	200,000	200,000	200,000	200,000
Project N (Rs)	(500,000)	100,000	200,000	300,000	300,000

Suppose you are the Project Manager and you have to recommend one of these projects for the approval of the Board of Directors. The required rate of return on the projects is 10 percent.

- a. Calculate the payback period, net present value (NPV) and internal rate of return (IRR) of each project.
 - b. Which project would you accept? Why? [7+2]
10. Consider the probability distribution of alternative rates of return associated with Stock A and Stock B given in the following table:

State of economy	Probability	Stock A	Stock B
1	0.3	0%	35%
2	0.4	10	15
3	0.3	20	-5

- a. Calculate the expected return and standard deviation of Stock A and Stock B.
- b. What are the covariance and correlation coefficient between Stock A and Stock B [5+4]

Or,

Everest Company's current stock price is Rs 360 and its last dividend was Rs 24. In view of company's strong financial position and its consequent low risk, its required rate of return is only 12 percent. If dividends are expected to grow at a constant rate in the future, and if required rate of return on stock is expected to remain 12 percent, what is company's expected stock price 5 years from now?

- a. Calculate the value of the stock today.
- b. Calculate value of stock at the end of year 1, (P₁).
- c. Calculate the dividend yield and capital gain yield for the first year. [3+3+3]