२/43

1805M214

Candidate's Seat No :

P.G.D.F.M.I. (Sem.-I) Examination

Paper I : Financial Management

May-2017

Time : 3 Hours] [Max. Marks : 70

Instructions: All the questions are compulsory. Internal Options are given. Figures in the bracket indicate marks.

Q # 1 (A) Explain the process of discounting in finding the value of cash flows. **(6)**

Q # 1 (B) What is time value of money? Explain its importance in financial management. **(6)**

OR

Q # 1 (A) Discuss the concept of wealth maximization in detail. **(6)**

Q # 1 (B) Discuss the four major decisions / functions in financial management performed by a financial manager? **(6)**

Q # 2 (A) A Rs.100 par value bond, bearing a coupon rate of 9 percent will mature after 4 years. What is the value of the bond, if the discount rate is 13 percent? **(6)**

Q # 2 (B) The equity stock of Amulya Corporation is currently selling for Rs.1200 per share. The dividend expected next is Rs.25.00. The investors' required rate of return on this stock is 12 percent. Assume that the constant growth model applies to Amulya Corporation. What is the expected growth rate of Amulya Corporation? **(6)**

OR

Q # 2 (A) A Rs.1000 par value bond, bearing a coupon rate of 12 percent will mature after 6 years. What is the value of the bond, if the discount rate is 16 percent? **(6)**

Q # 2 (B) The market value of a Rs.1,000 par value bond, carrying a coupon rate of 10 percent and maturing after 5 years, is Rs.850. What is the yield to maturity on this bond? **(6)**

Q # 3 (A) The following data is available for Newton Limited: **(6)**

Earnings per share = Rs.6.00
Rate of return = 18 percent
Cost of capital = 15 percent

(a) If Walter's valuation formula holds, what will be the price per share when the dividend payout ratio is 30 percent? 40 percent?

Q # 3 (B) The following data is available for Newton Limited: **(6)**

Earnings per share = Rs.8.00
Rate of return = 18 percent
Cost of capital = 15 percent

(b) If Gordon's basic valuation formula holds, what will be the price per share when the dividend payout is 30 percent, 40 percent?

OR

Q # 3 (A) Sigma Corporation is evaluating a project whose expected cash flows are as follows: **(6)**

Year	Cash flow (Rs.in million)
0	- 16.0
1	3.2
2	4.5
3	7.0
4	8.4

The cost of capital for Sigma Corporation is 12 percent. What is the NPV of the project?

Q # 3 (B) Your company is considering two projects, M and N. Each of which requires an initial outlay of Rs.240 million. The expected cash inflows (in millions) from these projects are: **(6)**

Year	Project M	Project N
1	85	100
2	120	110
3	180	120
4	100	90

What is the discounted payback period for each of the projects if the cost of capital is 15 percent?

Q # 4 (A) Mr. X deposits Rs. 10,000 at the end of every year for 5 years in his savings account **(6)**

P.T.O.

paying 5% p.a. interest. How much money he will get at the end of 5 years?

Q # 4 (B) You expect to receive Rs. 10,000 annually for 3 years at the end of each year. What is its present value at 10% rate? **(6)**

OR

Q # 4 (A) You invest Rs. 3000 a year for 3 years and Rs. 5000 a year for 7 years thereafter at interest rate of 12% p.a. What will be the maturity value at the end of 10 years? **(6)**

Q # 4 (B) You deposited Rs. 70,000 in your Public Provident Fund A/C for 15 years at 8% interest. How much you will get on maturity. **(6)**

Q # 5 (A) Discuss major factors determining working capital requirements **(6)**

Q # 5 (B) Explain the concept of operating cycle. **(6)**

OR

Q # 5 (A) Explain the motives for holding cash in detail **(6)**

Q # 5 (B) Explain the concept f operating leverage ad financial leverage. **(6)**

Q # 6 **Attempt the following MCQs:** **(10)**

(1) Cost of retained earnings is
A. Nil B. Nearly equal to cost of depreciation
C. Nearly equal to cost of equity D. Nearly equal to average cost of debt

(2) Management of Working capital is-
A. An investment decision B. A financing decision
C. A dividend decision D. A liquidity decision

(3) Face value of a bond is also called –
A. Replacement value B. Market value C. Par value D. Liquidation value

(4) The process of determining future value is often called
a. Compounding b. capitalisation c. securitisation d. discounting

(5) Series of cash flows of which continue forever is called
a. Perpetuity b. Liquidity c. Annuity d. none of these

(6) Series of cash flows of which continue forever is called
a. Perpetuity b. Liquidity c. Annuity d. none of these

(7) Management of capital Structure is-
A. An investment decision B. A financing decision
C. A dividend decision D. A liquidity decision

(8) 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

(9) NPV is used in
A. calculating historical risk
B. Evaluating prospective project
C. calculating beta
D. calculating future value

(10) According to net operating income approach increase in leverage will affect
A. cost of debt
B. cost of equity
C. overall capitalisation rate
D. both a and b
