(10)

Exam.Code:0312
Sub. Code: 2697

1057

Master of Entrepreneurship and Family Business
Second Semester
FB-203: Business Management – III
(Finance)

Time allowed: 3 Hours Max. Marks: 80

***NOTE:** Attempt five questions in all, selecting atleast two questions from each Unit.*

x-x-x

UNIT – I

I. Answer the following:-

a) Suppose a company's cash flow from assets was negative for a particular period. Is this necessarily a good sign or a bad sign?

b) Write short note on EVA. (6,10)

II. Answer the following:-

a) "Risk analysis of capital investments is one of the most complexes, controversial and slippery areas in finance" Discuss.

b) A Microgates Industries bond has a 10 percent coupon rate and a Rs. 1,000 face value. Interest is paid semiannually, and the bond has 20 years to maturity. If investors require a 12 percent yield, what is the bond's value? What is the effective annual yield on the bond?

c) What are the implications for bond investors of the lack of transparency in the bond market? (5,6,5)

III. Answer the following:-

a) In what respect is the objective of wealth maximization superior to the profit maximization objective?

b) What types of information do common size financial statements reveal about the firm? What is the best use for these common-size statements? What purpose do common-base year statements have? When would you use them?

c) The Alcala Company has a long-term debt ratio of 0.65 and a current ratio of 1.30. Current liabilities are Rs.900, sales are Rs.4,680, profit margin is 9.5 percent, and ROE is 22.4 percent. What is the amount of the firm's net fixed assets? (5,5,6)

P.T.O.

IV. Answer the following:-

a) Discuss the CAPM Model.

b) Suppose the risk-free rate is 8 percent. The expected return on the market is 16 percent. If a particular stock has a beta of .7, what is its expected return based on the CAPM? If another stock has an expected return of 24 percent, what must its beta be? (10,6)

V. Answer the following:-

a) What are the mutually exclusive projects? Explain the conditions when conflicting ranking would be given by the internal rate of return and net present value methods to such projects.

b) Equipment A has a cost of Rs. 75,000 and net cash flow of Rs. 20,000 per year for six years. A substitute equipment B would cost Rs. 50,000 and generate net cash flow of Rs. 14,000 per year for six years. The required rate of return of both equipments is 11 per cent. Calculate the IRR and NPV for the equipments. Which equipment should be accepted and why? (6,10)

UNIT – II

VI. Answer the following:-

a) What are the problems faced by a firm due to inadequate working capital?

b) During inflation pressure how can a finance managers control the needs of increasing working capital.

c) Which concept of working capital is more suitable to creditors for analysis to provide working capital finance and why? (5,5,6)

VII. Answer the following:-

a) What are the important propositions of .the traditional approach?

b) Define and discuss Modigliani - Miller proposition I and proposition

c) What is the relationship between leverage and cost of capital as per the net income approach?

d) Discuss the relationship between leverage and cost of capital as per the net operating income approach. (4x4)

VIII. Answer the following:-

a) Discuss the important provisions of company laws in India pertaining to dividends.

b) What are the implications of Walter model?

c) The following information is available for ABC Ltd. Earnings per share: Rs. 4 Rate of return on investments: 18 percent Rate of return required by shareholders: 15 percent. What will be the price per share as per the Walter model if the payout ratio is 40 percent? 50 percent? 60 percent? (7,3,6)

IX. Write short note on the following:

a) Venture capital financing

b) Asset based financing (16)

X. Answer the following:-

a) Current assets are financed by both long - term and short - term funds while fixed assets are long - term funds only. Explain.

b) Write notes on:-

i) Bank loan
ii) Trade credit
iii) Cash credit and overdraft
iv) Bill discounting
v) Commercial paper (16)

x-x-x