

(Following Paper ID and Roll No. to be filled in your Answer Book)

**PAPER ID : 7116**

Roll No.

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**M.B.A.**

(SEM IV) EVEN SEMESTER THEORY EXAMINATION, 2009-2010

**FINANCIAL MANAGEMENT**

Time : 3 Hours

Total Marks : 100

**Note :** (i) The question paper has three parts.

(ii) All questions are compulsory.

**PART - I**

1. This Question contains 20 objective type questions. Choose the correct answer by Ticking it (✓) all are compulsory. (20x1=20)
  - (a) What you think is the goal of Financial Management ?
    - (i) Maximization of profit
    - (ii) Expanding Market
    - (iii) Maximization of Shareholder Wealth
    - (iv) None of the above
  - (b) What goes with Debenture ?
    - (i) A Short term source of finance
    - (ii) A Medium term source of finance
    - (iii) A Long term source of finance
    - (iv) None of the above
  - (c) Give the compounded Value of Rs. 1000/- invested @ 10% p.a. for three years.
    - (i) Rs. 1000/-
    - (ii) Rs. 2000/-
    - (iii) Rs. 1331/-
    - (iv) None of the above

- (d) The general motive for holding inventories is :
- (i) Transaction Motive
  - (ii) Precautionary Motive
  - (iii) Speculative Motive
  - (iv) All the above
- (e) Account Receivables are known as :
- (i) Sundry Creditors
  - (ii) Sundry Debtors
  - (iii) B/R
  - (iv) B/P
- (f) Non - Discounting Method of capital Budgeting is :
- (i) P.V. Method
  - (ii) I.R.R.
  - (iii) Profitability Index
  - (iv) Accounting rate of return
- (g) ABC co. issues 12% Perpetual Debenture of Rs. 100 each. The tax rate is 50%. Find Debenture cost.
- (i) 12% and 6%
  - (ii) 6% and 12%
  - (iii) 12% and 12%
  - (iv) 6% and 6%
- (h) Is Gross Working Capital equal to :
- (i) Total Current Asset
  - (ii) Total Current Asset Minus liabilities
  - (iii) Total Current Liability Minus Asset
  - (iv) None of above
- (i) What is L.C. ?
- (i) Letter of cost
  - (ii) Letter of control
  - (iii) Letter of credit
  - (iv) None of above

- (j) Financial assets are :
- (i) Investment in Securities
  - (ii) Investment in Tangible Assets
  - (iii) Investment in both (i) and (ii)
  - (iv) None of above
- (k) ABC Analysis is a Method of controlling :
- (i) Cash
  - (ii) Credit
  - (iii) Inventory
  - (iv) None of above
- (l) I.R.R. of a project is the rate where N.P.V. tends to :
- (i) Zero
  - (ii) More than 1
  - (iii) Less than 1
  - (iv) 1
- (m) Which of the following can be claimed by a lessee as a business Expense ?
- (i) Lease rent
  - (ii) Maintenance expenses
  - (iii) Insurance
  - (iv) All of the above
- (n) Which of the following is a Bonus share ?
- (i) Issue of more shares to shareholders
  - (ii) Issue of Bond
  - (iii) Cash payment to shareholder
  - (iv) None of the above
- (o) With which of the following name goes the Hypothesis of capital structure ?
- (i) Modigliane and Miller
  - (ii) J.E. Walter
  - (iii) M.J. Gordan
  - (iv) None of the above

- (p) If EBTI is less than financial Break - even - point, then what will happen ?
- (i) EPS will be negative
  - (ii) EPS will be positive
  - (iii) Cost of debt rises
  - (iv) No impact on EPS.
- (q) If an investment produces annual return of 12% in first year, 7% in second year and 10% in third year, what is the annual return over three years ?
- (i) 9.65%
  - (ii) 9.42 %
  - (iii) 9.67 %
  - (iv) None of the above
- (r) What will be Reorder Quantity of Raw Material X, if the minimum stock level and average stock level are 4,000 and 9,000 units respectively ?
- (i) 8,000 units
  - (ii) 10,000 units
  - (iii) 12,000 units
  - (iv) 9,000 units
- (s) When a project will be accepted, if I.R.R. rule is applicable :
- (i)  $I R R > K$
  - (ii)  $I R R < K$
  - (iii)  $I R R \geq K$
  - (iv) None
- (t) CAPM provides a framework for Measuring risk. Identify the correct Risk.
- (i) Port - folio Risk
  - (ii) Market Risk
  - (iii) Systematic Risk
  - (iv) None of the above

## PART - II

2. Acclaim entertainment, Inc. is a mass marketer of interactive entertainment software whose games can be played on such well - known video game systems as Ninja and Sega. Some of their more successful games include Martal Kombat I and II NBA jam I and II. Maximum Carnage, Virtual Bart (Simpson), and NFL Quarterback. Acclaim has also obtained licenses from True Lies, Batman Forever, and Spiderman. Presently, Acclaim has licensing agreements with three industry leaders : Sony computer entertainment of America (SCE), Ninja, and Sega.

Acclaim is currently in the design/ production stage of a new version of Martal Kombat, Since the previous versions of the game were extremely successful acclaim is not greatly concerned with the acceptance of the game by the general public. It is concerned, however, with the hardware platform that should be chosen to distribute the game. Since licensing agreement are extremely short term, Acclaim wonders which of the three hardware companies should carry Mortal Combat. For example, the licensing agreement with SCE expires in December two years from now. The Ninja agreement expires in December of this year and the Sega contract expires in December of next year. While these contracts expire and have traditionally been renewed every few years, there is no guarantee they will be successfully renewed or extended in the future.

A further consideration involves the costs charged by each company. SCE Ninja and Sega charge their licensees a fixed amount per unit based on chip configuration, memory capacity, and market price. This charge covers manufacturing, printing and packaging of the unit, as well as a royalty for the use of their respective names, proprietary information and technology, Furthermore, these charges are subject to adjustment at the discretion of SCE, Ninja, and Sega. To offset the expenses of licensing fees, Acclaim must speculate on the ability of the three hardware platforms to access enough end - users to make their games profitable. Ninja and Sega hold a greater share of the market, but SCE charges lower licensing fees.

In general, the product life cycle in the interactive software business is from one month up to eighteen months with the majority of sales occurring within the first three months after introduction.

Acclaim's management has assembled the following projected net cash flows associated with the distribution of Martal Kombat. These net cash flows reflect all licensing fees, productions costs, advertising expenditures, revenues, etc. From the table given below answer the following question :

Year	Cash Inflow (in millions)		
	SEC	Ninja	Sega
0	-Rs 40	-Rs 40	Rs 40
1	Rs 34	Rs 44	Rs 41
2	Rs 10	Rs 16	Rs 18
3	Rs 5		Rs 4
4	Rs 1		

**Questions :**

- What is the Payback Period for Martal Kombat when marketed under the three different hardware companies ? Assuming a required payback period of 1 year, which company would you allow to carry the new product ?
- Assuming a discount rate of 10%, what is the Net Present Value (NPV) under each system ? Under which system, if any, would you be willing to produce Martal Kombat ?
- What are the Internal Rates of Return (IRR) under each marketer ? Which marketer(s) has/have accepted IRRs ?

3. A limited company is considering the purchase of a new machine. The machines, A (15) and B are available. From the following information relating to the two machines ascertain which of the two machines will be more profitable. The average rate of income to may be taken at 50 percent.

	Machine A	Machine B
	Rs.	Rs.
Cost of each machine	1,00,000	1,60,000
Working life	4 Yrs	6 yrs
Salvage Value	Nil	Nil
Earnings before tan	Rs.	Rs.
Year I	20,000	16,000
Year II	30,000	28,000
Year III	40,000	50,000
Year IV	50,000	60,000
Year V	Nil	36,000
Year VI	Nil	26,000

OR

The following information is available for Xyz Company :

- Net operating Income : lakh
- Interest on dept : lakh
- Cost of equity : 18 percent
- Cost of dept : 12 percent

- (a) What is the average cost of capital of the company ?
- (b) What happens to the average cost of capital, if it employs Rs. 100 lakh of debt to finance a project which means an operating income of Rs. 20 lakh ? Assume that the net operating income (NOI) method applies and there are no taxes.

PART-III

4. List various method of Long - term sources of finance. Explain any two of these. (12½)

OR

Explain and illustrate cost of capital. How does it affect financial decision making ?

5. Explain with example Modigliani and Millers Hypothesis of Capital. (12½)

**OR**

Write a note on WALTER'S Dividend Model and compare it with Gordon's Model.

6. Give the function of Finance Manager in today's world. Do you think that it needs rethinking in this period of depression. (12½)

**OR**

What is Risk? Give various types of risks. How do these affect investment?

7. What is financial leverage? Give its impact on earning of shares. (12½)

**OR**

What do you know about:

- (a) Indifference Point
- (b) Cash Budget
- (c) ABC Analysis.

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