Roll Number:

ThaparUniversity, Patiala
LMTSchool of Management

MBA (IT) (II Semester) Mid Semester
March, 2010
Time: 2:00 Hrs. MM: 30

PIT-203: Financial Management

Name of Faculty: Dr. Jouni / Dr. Shailendra Kumar

Note: There are two sections in the question paper i.e. Section A & B. Attempt all Questions.

Section A

1. Value creation

When companies create value, they attempt to do something for their shareholders that they cannot do themselves. In the lectures, we discussed four different ways how a business organization can create value for the shareholders**(4 Marks)**

However, these four ways are no longer that self evident ways to create value for shareholders. Discuss why that is so and what, perhaps, seems to be the most important way companies create value for their shareholders (i.e. what is often a company's most important asset in the eyes of the investors?) **(2 Marks)**

2. Financial Ratios

Companies have different stakeholders who use financial information to evaluate companies. Identify six groups of stakeholders and the reason why they are interested in the financial performance of companies **(3 Marks)**

There are different kinds of ratios for analyzing different things. What are the three main ways of using these ratios (i.e. what are the tree ways to apply these in practice?)**(3 Marks)**

3. Analyzing investments

A company is considering an investment option (new production line) resulting in the cash inflow and outflow stated below. The company usually accepts investment proposals providing positive NPV with 12 % interest. Do you think that, based on the NPV analysis, the company should proceed with the investment proposal **(4 Marks)**

	Sales	Costs
Initial Investment		600 000
Cash flows year 1	350 000	300 000
year 2	550 000	400 000
year 3	750 000	550 000
year 4	900 000	650 000
year 5	750 000	550 000

Would the situation change if the company will be able sell part of the equipment in the production line to some smaller company with the estimated sales price of 100 000 **(2 Marks)**after the five years of use?

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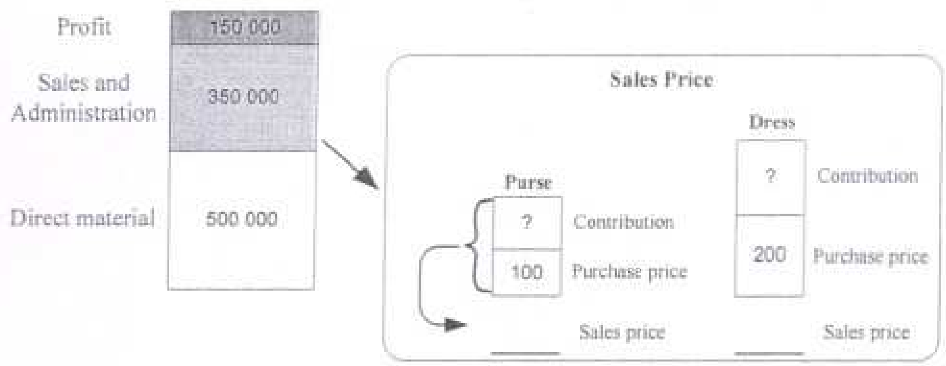
Profit and Cost Budget



Below you can see the cost budget of another company. Calculate the overhead burden rates and define sales price for the two products when the company wishes to make 15 % profit**(4 Marks)?**

Direct material	1 000 000
Material overhead	90 000
Direct manufacturing	1 000 000
Manufacturing overhead	160 000
Sales and administration	675 000

Products	A	B
Direct Material	100	100
Material Overhead		
Direct Manufacturing	100	200
Manufacturing Overhead		
Total		
Administration Overhead		
Total Costs		
Sales Price		

TABLE I

Present value interest factor for 1 Euro at i% for n periods

	1 %	2 %	3 %	4 %	5 %	6 %	7 %	8 %	9 %	10 %	11 %	12 %	13 %	14 %	15 %	16 %	17 %	18 %	19 %	20 %
1	0,990	0,980	0,971	0,962	0,952	0,943	0,935	0,926	0,917	0,909	0,901	0,893	0,885	0,877	0,870	0,862	0,855	0,847	0,840	0,833
2	0,980	0,961	0,943	0,925	0,907	0,890	0,873	0,857	0,842	0,826	0,812	0,797	0,783	0,769	0,756	0,743	0,731	0,718	0,706	0,694
3	0,971	0,942	0,915	0,889	0,864	0,840	0,816	0,794	0,722	0,751	0,731	0,712	0,693	0,675	0,658	0,641	0,624	0,609	0,593	0,579
4	0,961	0,924	0,888	0,855	0,823	0,792	0,763	0,735	0,708	0,683	0,659	0,636	0,613	0,592	0,572	0,522	0,534	0,516	0,499	0,482
5	0,951	0,906	0,863	0,822	0,784	0,747	0,713	0,681	0,650	0,621	0,593	0,567	0,543	0,519	0,497	0,476	0,456	0,437	0,419	0,402
6	0,924	0,888	0,837	0,790	0,746	0,705	0,666	0,630	0,596	0,564	0,535	0,507	0,480	0,456	0,432	0,410	0,390	0,370	0,352	0,335
7	0,933	0,871	0,813	0,760	0,711	0,665	0,623	0,583	0,547	0,513	0,482	0,452	0,425	0,400	0,376	0,354	0,333	0,314	0,296	0,279
8	0,923	0,853	0,789	0,731	0,677	0,627	0,582	0,540	0,502	0,467	0,434	0,404	0,376	0,351	0,327	0,305	0,285	0,266	0,249	0,233
9	0,914	0,837	0,766	0,703	0,645	0,592	0,544	0,500	0,460	0,424	0,391	0,361	0,333	0,308	0,284	0,263	0,243	0,225	0,209	0,194
10	0,905	0,820	0,744	0,676	0,614	0,558	0,508	0,463	0,422	0,386	0,352	0,322	0,295	0,270	0,247	0,227	0,208	0,191	0,176	0,162

Question No. 4 (6 Marks)

You are an avid investor in fixed income securities. Your portfolio of bond does not have bonds from AAA rated companies. You are considering purchase of an AAA rated bond. Two such bonds from AAA rated companies, Bond A and Bond B are available in the market that have following features:

Particulars	Bond A	Bond B
Face Value	Rs. 100.00	Rs. 120.00
Coupon Rate	16%	12%
Periodicity of Coupon	Semi-annual	Semi-annual
Time Remaining for Maturity	3 years	4 years
Current Market Price	Rs. 110.00	Rs. 130.00

Your expectation of return from the investment in AAA rated bond is 10%. Which of the bond should you buy and why? Assume that you are indifferent to the investment horizon of 3 or 4 years.

Question No. 5 (3+3= 6 Marks)

Write Short Notes on any **Two** of the following, with example:

(I) Over Capitalisation Vs. Under Capitalisation
(II) Trading on Equity
(III) Capital Market Vs. Money Market