

Registration Number:

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**ST JOSEPH’S UNIVERSITY, BENGALURU -27**

**B. Com – 4th SEMESTER**

**SEMESTER EXAMINATION: APRIL 2024**

**(Examination conducted in May / June 2024)**

**BCIFA4322: FINANCIAL MANAGEMENT II**

**(PV tables to be provided)**

**(For current batch students only)**

**Time: 2 Hours Max Marks: 60**

**This paper contains \_\_2\_\_\_\_ printed pages and \_\_4\_\_\_ parts**

**Section A**

**I.** Answer ***any five*** of the following (**3 x 5 = 15 marks)**

1. State any three tools for managing interest rate risk.
2. Company B has earnings of 420,500$. A similar listed company has a PE ratio of 7. Calculate value of the company.
3. A plc (UK) receives 100,000$ from a customer in US. The exchange rate is USD per 1pound - 1.6250 - 1.6310. How many pounds will A plc receive?
4. List out any three objectives of working capital management?
5. Calculate EOQ based on the following information –

Carrying cost – 12%

Ordering cost – 12$

Annual requirements – 40,000 units

Cost per unit – 5$ per unit.

1. Mention any three types of leasing services?

**Section B**

**II.** Answer ***any two*** of the following (**5 x 2 = 10 marks)**

1. Explain the sources of Islamic finance.
2. Co Q(UK) needs to pay $ 450,000 in 3 months.

Spot rate $/ pound = 1.7 – 1.7040

UK interest rate – 6% - 7.5%

US interest rate – 5% - 6.5%

What is the pound cost of this using a money market hedge?

1. Write a short note on Baumol’s model.

**Section C**

**III.** Answer ***any two*** of the following (**10 x 2 = 20 marks)**

1. A company is preparing a free cash flow forecast in order to calculate the value of equity. The following information is available-

Sales – current sales are $500m. growth is expected to be 8% in year 1, falling by 2% pa until sales level out in year 5 where they are expected to remain constant in perpetuity. The operating profit margin will be 10% for the first two years and 12% thereafter. Depreciation in year 1 will be 7$m increasing by 1m $ pa over the planning horizon before levelling off. The tax will be charged at 30% pa and the WACC is 10%. The market value of debt is 40m$.Calculate value of equity.

1. Nero co cash flow forecast shows that it will have to borrow 2m $ from Goodfellow Bank in 4 months’ time for a period of 3 months. The company fears that by the time the loan is taken out, int rates will have risen. The current int rate is 5% and this is offered by Helpy bank on the required FRA.

(i) state what kind of FRA is needed? **(1 mark)**

(ii) What are the cash flows if the int rate has risen to 6.5% when the loan is taken out? **(3marks)**

(iii) What are the cash flows if the int rate has fallen to 4% when the loan is taken out? **(3marks)**

(iv) Explain the concept of Caps, Collars and Floors. **(3 marks)**

1. Elucidate the theory of purchasing power and interest rate parity with assumptions.

**Section D**

**IV. Answer the following (15marks)**

1. A) Orange Co estimates the following figures for the coming year.

|  |  |
| --- | --- |
| Sales – all on credit | $ 3,600,000 |
| Receivables | $ 306,000 |
| Gross profit margin | 25% on sales |
| Finished goods | $ 200,000 |
| Work in Progress | $ 350,000 |
| Raw materials (balance held) | $ 150,000 |
| Trade payables | $ 130,000 |

Inventory levels are constant. The raw materials are 80% of cost of sales and it is all on credit. You are required to calculate the cash operating cycle. **(8M)**

**B) what is factoring? write a short note on its advantages and disadvantages. (7M)**