ALLAMA IQBAL OPEN UNIVERSITY

Level:	Bachelor	**Semester:**	**Autumn 2009**
Paper:	**Financial Management (191)**	**Maximum Marks:**	**100**
Time Allowed:	**03 Hours**	**Pass Marks:**	**40**

Note: ATTEMPT ANY FIVE QUESTIONS. ALL CARRY EQUAL MARKS.

Q.No.1: What is Financial Management all about? Discuss the major functions of a financial manager and explain that how are these functions related with each other?

Q.No.2: Salman always believes in cash transactions and likes to be paid today rather than in future even with higher amounts. Today he has got an offer to accept Rs.19500/- after three years from now instead of getting Rs.15900/- today for selling a refrigerator. Salman is confused that this would stick his money idle which could earn him a reasonable return of almost 14% in his business. Salman thinks that he should not accept this offer but he knows that you are a student of financial management and therefore seeks your advice. Guide Salman and use formula in case of any calculation.

Q.No.3: A company has total annual sales (all credit) of Rs. 400000/- and a gross profit margin of 20%. Its current assets are Rs. 80000/-, current liabilities Rs. 60000/-, inventories Rs. 30000/-, and cash of Rs. 10000/-.

(i) How much average inventory should be carried if management wants the inventory turnover to be 4?

(ii) How rapidly (in how many days) must accounts receivables be collected if management wants to have an average of Rs. 50000/- invested in receivables?

Q.No.4: A portfolio of three stocks has an expected value (return) of 14%. Stock A has an expected return of 6% and a weight of 0.25 in the portfolio. Stock B has an expected return of 10% and a weight of 0.50 in the portfolio. Stock C is the third stock in the portfolio. What is the expected rate of return on stock C?

Q.No.5: What is working capital management? Differentiate between "permanent" working capital and "temporary" working capital. You must give examples in support of your answer.

Q.No.6: Differentiate between a *stock dividend*, *stock split*, and a *revere stock split* and explain their impacts on share value of a business.

Q.No.7: A company pays Rs.4 per share in dividends and has 100000 shares outstanding. The company has net income of Rs. 1 million. If the market price per share is Rs.100, calculate the dividend pay out ratio of the company.

Q.No.8: Contrast the internal rate of return (IRR) with the net present value (NPV) method. Why might these two capital budgeting techniques lead to conflicts in project rankings?