

JAIPURIA INSTITUTE OF MANAGEMENT

COURSE FILE


COURSE: MBA

YEAR: 1st Year

SUBJECT: Financial Management

SUBJECT CODE: KMB 204

Faculty: Nidhi Mathur



In-charge
Internal Quality Assurance Cell

Internal Quality Assurance Cell
Jaipuria Institute of Management
Indirapuram, Ghaziabad

Content list for Course File (As per NBA)

1. Vision and Mission of Institute
2. Program outcomes (PO)
3. Course outcome (COs)
4. Academic calendar
5. Scheme of evaluation
6. Syllabus
7. Mapping of course outcome with Program outcome
8. Copy of time table
9. List of students
10. Lecture Plan
11. List of text book and reference book
12. Last year result analysis and target of current semester (Target should be achievable and higher from the last Semester)
13. Tutorial Sheet (One from each Unit)
14. Assignments (One from each Unit)
15. Quiz questions (One from each Unit)
16. Copy of question paper of sessional examination
17. Previous 3 years question paper of the University examination with solutions
18. Model paper with solution
19. Marks list of students in sessional examinations
20. Gap analysis in sessional Test 1 ,2 and 3
21. Remedial action taken to remove the gaps
22. Attendance record
23. Copy of awarded final sessional marks (CT+TA+AT)

Internal Quality Assurance Cell
Jaipuria Institute of Management
Indirapuram, Ghaziabad


In-charge
Internal Quality Assurance Cell

JAIPURIA INSTITUTE OF MANAGEMENT

VISION

To become a Fully Integrated, Socially Responsible, Contextually relevant, and Value-Based Management Institute of National Reckoning by meeting the growing and emerging needs of industry and business through contemporary innovative management Teaching, Training, Research and Consulting.

MISSION

We intend to provide and develop the capabilities of the young managers by raising their level of competence and intellect to face various challenges in the global environment. In pursuit of excellence, we provide training and development services, foster research and disseminate knowledge through publication of books, journals and magazines for the development of society at large.


Internal Quality Assurance Cell
Jaipuria Institute of Management
Indirapuram, Ghaziabad


In-charge
Internal Quality Assurance Cell

Program Outcomes

1. Apply knowledge of management theories and practices to solve business problems within available resources.
2. Foster Analytical and critical thinking abilities for data-based decision making.
3. Ability to develop Value based Leadership while addressing the larger environmental issues.
4. Ability to understand, analyze and communicate global, economic, legal, and ethical aspects of business.
5. Ability to lead themselves and others in the achievement of organizational goals, contributing effectively to a team environment which supports diverse and multidisciplinary settings.
6. Identify business opportunities, design and implement innovations in work space.
7. Ability to communicate effectively with all stakeholders in a business setting, considering the dynamism of domestic/ international business environment as well as the ethical aspects.
8. Ability to adapt to a rapidly changing environment by applying new skills and competencies.

Internal Quality Assurance Cell
Jaipuria Institute of Management
Indrapuram, Ghaziabad


In charge
Internal Quality Assurance Cell

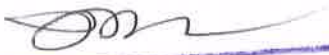
Course Objective

- To gain an understanding on the use of basic business financial management concepts and tools of analysis such as valuation.
- To gain an insight into various types of financing available to a firm.
- To have an understanding of various factors considered in designing the capital structure.
- To acquaint the students about key areas related to investment and Working Capital Management.
- To gain an insight into various techniques of dividend and retention ratio. Understand the different basic concept / fundamentals of Corporate Finance

Course Outcome

- Understand the practical application of time value of money and evaluating long term investment decisions
- Developing analytical skills to select the best source of capital, its structure on the basis of cost of capital
- Understand the use and application of different models for firm's optimum dividend payout.
- Understand the recent trends of primary and secondary market and developing skills for application of various financial services.

Internal Quality Assurance Cell
Jaipuria Institute of Management
Indrapuram, Ghaziabad


in-charge
Internal Quality Assurance Cell

Scheme of Evaluation

Evaluation Component and Weightage: (Five Components with indicative weightages)

SCHEME OF EVALUATION (MBA SEM II)				
COURSE: Financial Management				
Subject Code: KMB 204				
A	INTERNAL (OUT OF 50)	Marks Assigned to Each Component	WEIGHTAGE For INTERNALS (Percentage)	WEIGHTAGE For INTERNALS (Actual)
1	SESSIONAL 1	100	15%	15
	SESSIONAL 2	100	15%	15
2	ASSIGNMENT 1	25	10%	2.5
	ASSIGNMENT 2	25	10%	2.5
3	QUIZ (5 no. one from each unit)	50	20%	10
4.	Class Presentations/ Participation	10	25%	2.5
5.	Attendance	10	25%	2.5
	Total of (A)			50
B	EXTERNAL (OUT OF 100) (Conducted by University)			100
	TOTAL (A+B)			150

Internal Quality Assurance Cell
Jalouria Institute of Management
Jaldirapuram, Chaziabad

In-charge
Internal Quality Assurance Cell

CORPORATE FINANCIAL MANAGEMENT
KMB 204

Course Credit: 3

Contact Hours:36Hrs

UNIT I (6 Hrs)

Introduction to Finance & Corporate Finance : Finance & its scope Financial Decisions, Sources of Finance Time Value of Money ,Profit maximization vs. Wealth maximization, Functions of Finance Manager in Modern Age, Corporate Finance Introduction:- Nature and Scope . Concept of Risk and Return.

UNIT II (10 Hrs)

Investment Decision : Concept of Opportunity Cost, Cost of Debenture, Preference and Equity capital, Composite Cost of Capital ,Cash Flows as Profit and components of Cash Flows , Capital Budgeting Decisions, Calculation of NPV and IRR, Excel Application in Analyzing Projects.

UNIT III(10 Hrs)

Financial Decision: Capital Structure, Relevance and Irrelevancy theory, Leverage analysis – financial, operating and combined leverage along with its implications, EBIT EPS Analysis, Point of Indifference

UNIT IV (10 Hrs)

Dividend Relevance: Factors affecting Dividend Policy, Forms of Dividends, Types of Dividend Policies, Dividend Models :Walter and Gordon Model, Miller- Modigliani(MM) Hypothesis .

UNIT V (4 Hrs)

Indian Financial System: Role of Financial Institution, Primary and Secondary Market, Lease Financing, Venture Capital, Mutual Funds. Introduction to Derivatives.

Course Outcome:

After successful completion of this course students will be able to

S.No	Course Outcome	Bloom's Taxonomy
1.	C01 Understand the different basic concept / fundamentals of Corporate Finance	<ul style="list-style-type: none">• Knowledge(K2)• Remembering(K1)

Internal Quality Assurance Cell
Jaipuria Institute of Management
Indirapuram, Ghaziabad

682

In-charge
Internal Quality Assurance Cell

**JAIPURIA INSTITUTE OF MANAGEMENT
INDIRAPURAM, GHAZIABAD**

ACADEMIC CALENDAR 2018-19

DATE	EVENT/ ACTIVITY
3- 8 August, 2018	Orientation programme
9 August, 2018	Commencement of Odd Semester
11- 12 August, 2018	Live Project
25 August, 2018	Swachh Bharat Drive/ Tree Plantation
5 September, 2018	Teachers' Day Celebration & Freshers' Party
10- 15 September, 2018	Sessional I (Odd Semester)
6 October, 2018	Alumni Meet 2018
3 November, 2018	Mercato- the 5th Marketing Haat
12- 17 November, 2018	Sessional II (Odd Semester)
1 December, 2018	International Conference
11 January, 2019	Commencement of Even Semester
2 February, 2019	Corporate Summit
14- 15 February, 2019	Sports Fest 2019
18 February, 2019	Sessional I (Even Semester)
23 February, 2019	Panel Discussion by FMCG experts
11 March, 2019	Panel Discussion on Union Budget 2019
5 April, 2019	SPARDHA: Inter- College Festival
8 April, 2019	Sessional II (Even Semester)
6 May, 2019	Farewell Party
22- 27 July, 2019	Faculty Development Programme

Internal Quality Assurance Cell
Jaipuria Institute of Management
Indirapuram, Ghaziabad

In-charge
Internal Quality Assurance Cell

Overall Pos Attainment Level MBA BATCH 2016-18

Programme Outcomes (PO)	Overall Direct attainment	Overall Indirect attainment
Attained Attainment level	2.18	2.16
Weighted assigned	0.75	0.25
Weighted Aggregate	1.64	0.54
Overall Pos Attainment Level	2.18	

Internal Quality Assurance Cell
Jaipuria Institute of Management
Indrapuram, Gaziabad

SP
in-charge
Internal Quality Assurance Cell

OVERALL ATTAINMENT OF POS (DIRECT & INDIRECT)

Attainment Level	Programme Outcomes (PO)	PO1 :Solve Business Problem	PO2 : Critical thinking	PO3 :Value based leadership	PO4 : Environmental Analysis	PO5: Team Work	PO6: Innovation	PO7: Communication	PO8: Adapt	Overall attainment of POS
Direct attainment	Average attainment level of each PO	2.35	2.09	2.00	2.17	2.26	2.29	2.18	2.10	2.18
Indirect attainment	Average attainment level of each PO	2.50	2.00	2.20	2.00	2.25	2.00	2.33	2.00	2.16

Internal Quality Assurance Cell
 Jaipuria Institute of Management
 Indraprastha, Gurgaon

In-charge
 Internal Quality Assurance Cell



Sem.	Programme Outcomes	PO1: Solve Business Problem	PO2: Critical thinking	PO3: Value based leadership	PO4: Environmental Analysis	PO5: Team Work	PO6: Innovation	PO7: Communication	PO8: Adapt	
Sem I	MANAGEMENT CONCEPTS AND APPLICATIONS	3		2	2			2	2	
	Managerial Economics	2			2					
	Financial Accounting for Managers	3	1		2			2		
	Business Statistics	3	2			1				
	Organisational Behaviour	2		2		3		2	2	
	Marketing Management	3	2		2	2	2	3	2	
	Business Communication			2	2	2	2	3	2	
	Computer application and Management	2	2				2		2	
	Sem II	Business Environment	3	2		3		2		
		Human resource Management	2		1				2	
		Business Research Methods	3	2		1		2	2	2
		Financial Management		3		2			2	2
Management Accounting and Control		3			2	2		2		
Production Operation and Supply chain Management		3	2				2			
Quatitative Techniques for Managers		3	2			2			2	
Legal Aspects of Business		3	2	2					2	
Strategic Management		3	2	2	2					
International Business Management		2		2	2			2		
Universal Human Values and Professional Ethics				3		2			2	
Talent Management		2		2		2			2	
Performance and Reward Management	2		2		3					
Sem III	Industrial Relations and Labour Laws			2		3		2	3	
	Sales & Distribution Management	2				3	2	2	2	
	Consumer Behaviour		2		3	2		3	2	
	Digital Marketing						3		2	
	Security Analysis & Portfolio Management									
	Tax Planning & Management	2	2		2		2		2	

Internal Quality Assurance Cell
 Jaipur Institute of Management
 Jaipur, Chaziabad
 Internal Quality Assurance Cell

078

Sem IV	Financial Market & Commercial Banking		2			3		2		3
	International Marketing			3		3		2		2
	International Logistics	2	2			2		2		2
	Export Import Documentation					2		2	3	2
	Enterprise Resource Planning	2	3					3		2
	Web Technology & E-Commerce	3	2					2		2
	Cloud Computing for Business	2	2					3		2
	Supply Chain Management	2				2		2		2
	Materials Management	2				3		2		2
	Production Planning & Control	2	2			2		2		
	Summer Internship	2	2			2				
	Corporate Governance : Values and Ethics	2	2	3					2	2
	Entrepreneurship Development		3	2		2		3		2
	Trading Blocks & Foreign Trade-Frame Work					2		3		2
	Cross Cultural Management			2		2		2		2
	Marketing of Services		2			2		2		2
	Integrated Marketing Communication		2			2		2		2
Working Capital Management	2	2					2		2	
Financial Derivatives		3								
Training & Development							3		2	
Negotiation & Conflict Management		1	2				3		2	
Database Management System	2	2			2		2		3	
RPR	2	2					2			
Cyber Security			1		2		3		2	

Internal Quality Assurance Cell
Jaipuria Institute of Management
Indrapuram, Ghaziabad

In-charge
Internal Quality Assurance Cell

077

PO MBA BATCH 2016-18 INDIRECT ASSESSMENT

	Programme Outcomes	PO1 : Solve Business Problem	PO2 : Critical thinking	PO3 : Value based leadership	PO4 : Environmental Analysis	PO5 : Team Work	PO6 : Innovation	PO7 : Communication	PO8 : Adapt
Indirect assessment	Students Development Activity		2	3		2		2	
	CSR activity			2		3		2	2
	Feedback from stakeholder							3	2
	Management Fest			2		2	2	2	
	Value addition Programme	2	2		2				2
	Soft Skill Training			2			2	3	2
	Employability Enhancement Programme	3	2	2		2		2	2

Internal Quality Assurance Cell
 Jaipuria Institute of Management
 Indrapuram, Ghaziabad

In-charge
 Internal Quality Assurance Cell



**Overall Course Outcome (CO) Attainment
(External + Internal)**

For the calculation of overall course outcome attainment of the program of the last batch, 0.7 weightage is assigned to end-term examination and 0.3 weightage to internal assessments.

Overall Course Outcome (CO) Attainment (External + Internal)

Course Outcomes(CO)	Overall External Assessment	Overall Internal Assessment
Attainment Level Achieved	2.4	2.26
Weightage Assigned	0.7	0.3
Weightage Attainment	1.68	0.68
Overall CO Attainment Level	2.36	

Internal Quality Assurance Cell
Jaipuria Institute of Management
Indrapuram, Ghaziabad

[Signature]
In-charge
Internal Quality Assurance Cell

Internal				
Attainment Parameters				Weightage Assigned
Attainment Level 1	75% Students scoring more than Institute's set percentage marks in the internal assessment			1
Attainment Level 2	80% Students scoring more than Institute's set percentage marks in the internal assessment			2
Attainment Level 3	85% Students scoring more than Institute's set percentage marks in the internal assessment			3
Batch	Target Marks (%)	Average Marks (%)	Actual % of Students Achieved the Set Target Marks	Attainment Level
2016-18	75%	82.99	84.34	2.26

Internal Quality Assurance Cell
Jaipur Institute of Management
Indrapuram, Ghaziabad

In-charge
Internal Quality Assurance Cell

Subject	No. of Students appeared in Internal Exam.	Total Internal Number	% Internal	Target %	Actual % of Students Achieved the Set Target Marks	Attainment Level
MANAGEMENT CONCEPTS AND MANAGERIAL ECONOMICS	170	4293	84.18	75.00	91.18	3.00
FINANCIAL ACCOUNTING FOR BUSSINESS STATISTICS	170	4235	83.04	75.00	87.65	3.00
ORGANISATIONAL BEHAVIOUR	170	4291	84.14	75.00	88.82	3.00
MARKETING MANAGEMENT	170	4152	81.41	75.00	88.82	3.00
BUSSINESS COMMUNICATION	170	4202	82.39	75.00	84.12	2.00
COMPUTER APPLICATION & MANAGEMENT INFORMATION SYSTEM	170	4048	79.37	75.00	80.59	2.00
BUSINESS ENVIRONMENT	170	4341	85.12	75.00	85.88	3.00
HUMAN RESOURCE MANAGEMENT	170	4313	84.57	75.00	81.18	2.00
BUSINESS RESEARCH METHODS	170	4227	82.88	75.00	77.65	1.00
FINANCIAL MANAGEMENT	170	4281	83.94	75.00	80.59	2.00
MANAGEMENT ACCOUNTING & CENTRAL	170	4249	83.31	75.00	77.06	1.00
PRODUCTION OPERATION & SUPPLY CHAIN MANAGEMENT	170	4246	83.25	75.00	78.82	1.00
QUANTITATIVE TECHIQUE FOR MANAGERS	170	4236	83.06	75.00	76.47	1.00
LEGAL ASPECTS FOR BUSINESS	170	4226	82.86	75.00	75.29	1.00
Strategic Management	170	4201	82.37	75.00	77.65	1.00
International Business Management	170	4163	81.63	75.00	82.94	2.00
Sales & Distribution Management	170	4097	80.33	75.00	62.94	1.00
Consumer Behaviour	137	3190	77.62	75.00	64.96	1.00
Digital Marketing	139	3401	81.56	75.00	78.42	1.00
Talent Management	79	1890	79.75	75.00	50.63	1.00
Performance and Reward Management	56	1347	80.18	75.00	82.14	2.00
Industrial Relations and Labour Laws	86	2029	78.64	75.00	89.53	3.00
Security Analysis & Portfolio Management	84	1951	77.42	75.00	86.90	3.00
Tax Planning & Management	55	1393	84.42	75.00	85.45	3.00
Financial Market & Commercial Banking	41	1042	84.72	75.00	85.37	3.00
International Logistics	53	1336	84.03	75.00	84.91	2.00
Export Import Documentation	54	1265	78.09	75.00	44.44	1.00
Enterprise Resource Planning	54	1331	82.16	75.00	85.19	3.00
Web Technology & E-Commerce	5	126	84.00	75.00	100.00	3.00
Corporate Governance : Values and Ethics	5	124	82.67	75.00	100.00	3.00
Entrepreneurship Development	170	4493	88.10	75.00	95.88	3.00
Trading Blocks & Foreign Trade Frame Work	170	4489	88.02	75.00	96.47	3.00
Cross Cultural Management	33	875	88.38	75.00	96.97	3.00
Marketing of Services	21	560	88.89	75.00	100.00	3.00
Integrated Marketing Communication	119	3005	84.17	75.00	87.39	3.00
Working Capital Management	101	2530	83.50	75.00	92.08	3.00
Financial Derivatives	58	1553	89.25	75.00	100.00	3.00
Training & Development	40	1077	89.75	75.00	100.00	3.00
Negotiation & Conflict Management	83	2193	88.07	75.00	92.77	3.00
Database Management System	51	1343	87.78	75.00	92.16	3.00
	5	138	92.00	75.00	100.00	3.00
	4759	118488	82.99	75.00	84.34	2.26

Internal Quality Assurance Cell
Jaipuria Institute of Management
Indirapuram, Ghaziabad

In-charge
Internal Quality Assurance Cell

External				
Attainment Parameters				Weightage Assigned
Attainment Level 1	52.5% Students scoring more than Institute's set percentage marks in the internal assessment			1
Attainment Level 2	60% Students scoring more than Institute's set percentage marks in the internal assessment			2
Attainment Level 3	67.5% Students scoring more than Institute's set percentage marks in the internal assessment			3
Batch	Target Marks (%)	Average Marks (%)	Actual % of Students Achieved the Set Target Marks	Attainment Level
2016-18	53%	58.38	67.46	2.4

Internal Quality Assurance Cell
 Jaipuria Institute of Management
 Indirapuram, Ghaziabad

In-Charge
 Internal Quality Assurance Cell

Subject	No. of Students appeared in External Exam.	Total External Number	% External	Target %	Actual % of Students Achieved the Set Target Marks	Attainment Level
MANAGEMENT CONCEPTS AND	170	6591	55.39	52.50	62.35	2
MANAGERIAL ECONOMICS	170	7114	59.78	52.50	74.71	3
FINANCIAL ACCOUNTING FOR	170	7346	61.73	52.50	72.35	3
BUSSINESS STATISTICS	170	7269	61.08	52.50	65.88	2
ORGANISATIONAL BEHAVIOUR	170	6877	57.79	52.50	72.94	3
MARKETING MANAGEMENT	170	6541	54.97	52.50	62.35	2
BUSSINESS COMMUNICATION	170	7166	60.22	52.50	64.71	2
COMPUTER APPLICATION & MANAGEMENT INFORMATION SYSTEM	170	6973	58.60	52.50	81.76	3
BUSINESS ENVIRONMENT	170	7214	60.62	52.50	82.35	3
HUMAN RESOURCE MANAGEMENT	170	7424	62.39	52.50	76.47	3
BUSINESS RESEARCH METHODS	170	7210	60.59	52.50	76.47	3
FINANCIAL MANAGEMENT	170	6812	57.24	52.50	64.12	2
MANAGEMENT ACCOUNTING & CENTRAL	170	6618	55.61	52.50	60.59	2
PRODUCTION OPERATION & SUPPLY CHAIN MANAGEMENT	170	7001	58.83	52.50	71.18	3
QUANTITATIVE TECHNIQUE FOR MANAGERS	170	7535	63.32	52.50	71.18	3
LEGAL ASPECTS FOR BUSINESS	170	7009	58.90	52.50	70.59	3
Strategic Management	168	6669	56.71	52.50	62.35	2
International Business Management	170	6808	57.21	52.50	70.59	3
Sales & Distribution Management	136	5468	57.44	52.50	69.85	3
Consumer Behaviour	136	5566	58.47	52.50	76.47	3
Digital Marketing	79	3153	57.02	52.50	69.62	3
Talent Management	53	2263	61.00	52.50	71.70	3
Performance and Reward Management	85	3481	58.50	52.50	64.71	2
Industrial Relations and Labour Laws	82	3431	59.77	52.50	70.73	3
Security Analysis & Portfolio Management	53	2119	57.12	52.50	67.92	3
Tax Planning & Management	41	1647	57.39	52.50	73.17	3
Financial Market & Commercial Banking	53	2149	57.92	52.50	66.04	2
International Logistics	54	2086	55.19	52.50	51.85	1
Export Import Documentation	54	2111	55.85	52.50	68.52	2
Enterprise Resource Planning	5	227	64.86	52.50	60.00	1
Web Technology & E-Commerce	5	211	60.29	52.50	80.00	3
Corporate Governance : Values and Ethics	170	6497	54.60	52.50	57.65	2
Entrepreneurship Development	170	6885	57.86	52.50	67.65	3
Trading Blocks & Foreign Trade Frame Work	33	1358	58.79	52.50	72.73	3
Cross Cultural Management	21	724	49.25	52.50	19.05	1
Marketing of Services	119	4624	55.51	52.50	67.23	2
Integrated Marketing Communication	101	4096	57.93	52.50	73.27	3
Working Capital Management	58	2458	60.54	52.50	75.86	3
Financial Derivatives	40	1625	58.04	52.50	67.50	2
Training & Development	83	3343	57.54	52.50	63.86	2
Negotiation & Conflict Management	51	2004	56.13	52.50	54.90	1
Database Management System	5	204	58.29	52.50	60.00	1
	4745	193907	58.38		67.46	2.40

Internal Quality Assurance
Jaipuria Institute of Management
Indrapuram, Gurgaon

In-charge
Internal Quality Assurance Cell

Mapping of Course Outcome with Programme Outcome

Course Outcome (CO)	Programme outcome (PO)
Understand the practical application of time value of money and evaluating long term investment decisions.	1. Apply knowledge of management theories and practices to solve business problems within available resources.
Developing analytical skills to select the best source of capital, its structure on the basis of cost of capital.	2. Foster Analytical and critical thinking abilities for data-based decision making.
Understand the use and application of different models for firm's optimum dividend payout.	3. Ability to develop Value based Leadership while addressing the larger environmental issues.
Understand the recent trends of primary and secondary market and developing skills for application of various financial services	4. Ability to understand, analyze and communicate global, economic, legal, and ethical aspects of business
	5. Ability to lead themselves and others in the achievement of organizational goals, contributing effectively to a team environment which supports diverse and multidisciplinary settings.
	6. Identify business opportunities, design and implement innovations in work space.
	7. Ability to communicate effectively with all stakeholders in a business setting, considering the dynamism of domestic/ international business environment as well as the ethical aspects.
	8. Ability to adapt to a rapidly changing environment by applying new skills and competencies.

CO-PO Mapping

1: Low 2: Medium 3: High

SEM	Subject	Course Outcomes	PO1	PO2	PO3	PO4	PO5	PO6	PO7	PO8
II	Financial Management	CO1	3	3	1	1	1	2	3	1
		CO2	2	3	1	2	1	1	2	1
		CO3	3	2	1	1	1	2	2	2
		CO4	1	2	1	2	2	2	2	3


In-charge
Internal Quality Assurance Cell

670

Internal Quality Assurance Cell
Jaipuria Institute of Management
Indiranagar, Gurgaon

MBA I Sem LIST OF STUDENTS

Sec A	Sec B	Sec C
Abhishek Mishra	Aayushi Chaudhry	Abhishek Singh
Akanksha Singh	Abhishek Gupta	Aditya Chaudhary
Aman Badola	Abhishek Verma	Aditya Kumar
Ankit Kumar Singh	Achyut Shukla	Aishwarya Singh
Anmol Pranav	Akash Shewade	Akshay Sharma
Antriksh Tyagi	Akhilesh Bisht	Aniket Kumar Singh
Arpit Tyagi	Amrita	Ankita Roy
Ashish Kumar	Ananya Srivastava	Anshita Sharma
Ashish Vishal	Ayush Goyal	Apoorva Jha
Bhawna Goyel	Binita Kumari	Bhagya Shri
Chandan Raj	Darshika Agrawal	Deeksha Mishra
Disha Bansal	Deepali Chauhan	Deepali Bansal
Girish Dhillon	Gajidhar Kumar	Dharmesh Saraswat
Himanshi Vishnoi	Himanshu Kashyap	Ilma Siddiqua
Ishita Chauhan	Kirti Arora	Jagrati Bhatnagar
Jyotiraditya Singh	Kumar Gaurav	Kartik Chaudhary
Kashish Naqvi	Kumar Nirbhay	Khushi Saluja
Kaustubh Rai	Kundan Kumar	Mansi Malviya
Kumar Gautam Singh	Madhav Jha	Mayank Kumar Choudhary
Meenu	Manisha Kumari	Nidhi Singh
Niketa	Mayank Yadav	Osheen Jain
Pooja Kumari	Mini Tewari	Pallavi Bhardwaj
Pragati Jaiswal	Monika Sharma	Prakhar Singh
Prateek Kapoor	Mridul Bana	Sana Bari
Prince Tyagi	Muskan	Shalu Dubey
Priya Pathak	Muskan Agarwal	Shiv Shankar Jha
Raj Rai	Naynika Shukla	Shivam Duhoon
Rishab Kasana	Nishant Kesharwani	Shivani
Rishabh Bhardwaj	Nitendra Pratap Singh	Shristi Gupta
Rishav Tiwari	Nitika Kumari	Shruti Sajeew
Ritika Raj	Palak Mittal	Shubham Jain
Rohit Abraham Roy	Paridhi Sharma	Siddharth Chauhan
Rohit Mishra	Paridhi Yadav	Smita
Sachin Chauhan	Pooja Tomer	Smriti Nigam
Sakshi Pant	Pragati Sharma	Snigdha Chitransh
Sarita Mishra	Pragya Singh	Subhan Javed
Saumya Garg	Pranshi Tyagi	Sujata Teja
Shanu Ranjan	Prashali Srivastava	Sumit Chaudhary
Shikha Singh	Prema Tyagi	Sumit Tripathi
Shiv Sunder Barik	Rahul Singhal	Surabhi Baranwal
Shivam Jaiswal	Rajat Kumar Yadav	Swati Singh
Shivam Pandey	Rashi Tyagi	Tarun Kumar Singh
Shivang Garg	Rewati Tiwari	Utkarsh Rathi
Shivani Mishra	Ritik Asthana	Vaibhav Singh
Shrishti	Ritika Sinha	Vamakshi Naharia


In-charge
Internal Quality Assurance Cell

Internal Quality Assurance Cell
Jaipuria Institute of Management
Indrapuram, Ghaziabad

Lesson Plan
Programme: MBA (II Sem) 2018-19

Name of the Course: Financial Management
Sem: II
Faculty: Dr.NidhiMathur
Contact No.: 9818305602

Credit: 03
Academic Year: 2018-2019

Email: nidhi.mathur@jaipuria.edu.in

Introduction /Course Description:

This course will help students build essential financial management skills that will enhance your personal tool set and ensure that you apply best practices when managing fiduciary responsibilities. This course is suitable for anyone who wishes to achieve financial literacy and/or has the interest about the interesting world of finance. More specifically, entrepreneurs, managers and executives who are going to start learning finance, business students who are going to start learning finance and anyone who has involvement with financial decision-making would be benefitted from this course. This course is also suitable for absolute beginners who have never attended a finance course before, and may continue learning finance at an advanced level in future.

Course Objective

- To gain an understanding on the use of basic business financial management concepts and tools of analysis such as valuation.
- To gain an insight into various types of financing available to a firm.
- To have an understanding of various factors considered in designing the capital structure.
- To acquaint the students about key areas related to investment and Working Capital Management.
- To gain an insight into various techniques of dividend and retention ratio. Understand the different basic concept / fundamentals of Corporate Finance

Pedagogy:

The pedagogy includes lectures, case discussions and analytical exercises to understand the basic concepts of finance. Simulation games and exercises, syndicates, group discussions and practical project work are also used to develop conceptual, analytical and decision making skills and to prepare the students to face the challenges of the complex business and organizational environment. An attempt is made to assess the students' performance through a continuous system of tests, quizzes, mid-term and semester-end examination to ensure highest academic standards as well as practical orientation.

Internal Quality Assurance Cell
Jaipuria Institute of Management
Indrapuram, Ghaziabad


In-charge
Internal Quality Assurance Cell

List of Books:**Text Book:**

- Pandey I M - Financial Management (Vikas, 11th Ed.)

Reference Book:

- R P Rustagi - Financial Management (Galgotia, 2000, 2nd revised ed.)
- Van Horne - Financial Management and Policy (Prentice hall, 2003, 12th Ed.)

Evaluation Component and Weightage: (Five Components with indicative weightages)

SCHEME OF EVALUATION (MBA SEM II)				
COURSE: Financial Management				
Subject Code: KMB 204				
A	INTERNAL (OUT OF 50)	Marks Assigned to Each Component	WEIGHTAGE For INTERNALS (Percentage)	WEIGHTAGE For INTERNALS (Actual)
1	SESSIONAL 1	100	15%	15
	SESSIONAL 2	100	15%	15
2	ASSIGNMENT 1	25	10%	2.5
	ASSIGNMENT 2	25	10%	2.5
3	QUIZ (5 no. one from each unit)	50	20%	10
4.	Class Presentations/ Participation	10	25%	2.5
5.	Attendance	10	25%	2.5
	Total of (A)			50
B	EXTERNAL (OUT OF 100) (Conducted by University)			100
	TOTAL (A+B)			150

Internal Quality Assurance Cell
Jaipuria Institute of Management
Indirapuram, Ghaziabad

In-charge
Internal Quality Assurance Cell

Detailed Session Plan:

Session No	Topics	Reading/Reference	Learning outcome
1	Introduction to finance, concept and overview	Chapter 1 of the text book (pp; 2- 12)	Understand basic concept of finance
2	Financial decision, types and their scope in modern age	Chapter 1 of the text book (pp:11-15)	Understand types of financing decision and their relevance
3	Concept of time value of money	Chapter 1 of the text book (pp:16-22)	Knowledge of time value of money
4	Practical problems and cases on time value of money	Reference book and text book	Analytical ability
5	Sources of finance,(short term and long term)	Chapter 20 of the text book (pp:479-489)	Knowledge of sources of capital structure
6	Profit maximization and wealth maximization concept	Chapter 1 of the text book (pp; 2- 12)	Conceptual knowledge of objective of firm
7	Functions and Role of finance manager in modern age.	Chapter 1 of the text book (pp:31-36)	Understanding of role of finance manager.
8	Introduction to corporate finance	Reference book	Conceptual knowledge of corporate finance
9	Nature and scope of corporate finance	Reference Book	Conceptual knowledge of corporate finance
10	Concept of risk and return, CAPM model	Chapter 4 of the text book (pp:75-80)	Analytical skills of risk and return evaluation.
11	UNIT II(9Hrs) Investment decision Introduction, concept of opportunity cost and its impact with eg	Chapter 8 of the text book (pp:156-176)	Concept of Investment decision
12	Capital and its components, equity and Debt	Chapter 2 of the text book (pp:48-52)	Understanding of capital structure and its components.
13	Concept of cost of capital, cost of equity and its calculation and cost of debt concept	Chapter 9 of the text book (pp:187-204)	Analysis of types of cost and their calculations.
14	Case study	IIM Ahmedabad Case Bank	Case Analysis understanding
15	Cash flows of firm and its calculation with respect to profit	Chapter 10 of the text book (pp:217-235)	Techniques of cash flow
16	Capital budgeting decision and their importance and process	Chapter 8 of the text book (pp:156-176)	Investment decision concepts
17	Techniques of capital budgeting,	Chapter 8 of the text	Analysis of projects for

Internal Quality Assurance Cell
Jaipuria Institute of Management
Indrapuram, Ghaziabad

In-charge
Internal Quality Assurance Cell


	discounted and non discounted method	book (pp:156-176)	investment
18	Calculation of NPV and IRR (practical)	Chapter 8 of the text book (pp:156-176)	Analysis of projects for investment
19	Quiz I		
20	UNIT III (7Hrs) Capital structure, theories of capital structure	Chapter 15 of the text book (pp:342-374)	Understanding of structure of firm
21	Implication of debt equity on the value of the firm	Chapter 15 of the text book (pp:342-374)	Concept of various components of firms capital
22	Concept of leverage, financial and operating leverage	Chapter 14 of the text book (pp:316-329)	Theory of leverage and its implication for business decisions
23	Implication of leverage on the value of firm	Chapter 14 of the text book (pp:316-329)	Theory of leverage and its implication for business decisions
24	Case study II	Case Bank (IIM Ahmedabad)	
25	EBIT and EPS calculation and point of indifference concept	Chapter 14 of the text book (pp:322-324)	Concept of Earning per share and its impact on firms valuation
26	Numerical problem on EBIT and EPS analysis	Chapter 14 of the text book (pp:322-324)	Concept of Earning per share and its impact on firms valuation
27	UNIT IV(6 hrs) Dividend decisions concept, policy and factors affecting	Chapter 18 of the text book (pp:439-454)	Understanding of concepts of dividend
28	Forms of dividend and types of dividend policy	Chapter 17 of the text book (pp:418-431)	Various types of dividend distributed by firm
29	Relevance and irrelevance theory of dividend decisions	Chapter 17 of the text book (pp:418-431)	Understanding of mo
30	Walter model its concept and implication the Value of firm	Chapter 17 of the text book (pp:418-431)	
31	Gordon model with practical case	Chapter 17 of the text book (pp:418-431)	

Internal Quality Assurance Cell
Jaipuria Institute of Management
Indrapuram, Ghaziabad

In-charge
Internal Quality Assurance Cell

32	MM approach / Hypothesis its assumptions and applications	Chapter 17 of the text book (pp:418-431)	
33	QUIZ II		
34	Indian financial system and its components	Chapter 4 of the text book (pp:145)	Knowledge of financial system
35	Primary and second market structure and components	Chapter 4 of the text book (pp:162-163)	Understanding of financial structure
36	Lease financing and venture capital financing	Chapter 23 of the text book (pp:534 - 543)	Conceptual knowledge of venture capital financing and lease financing
37	Mutual funds industry and schemes	Reference book	Knowledge of mutual fund
38	Introduction to derivatives	Chapter 33 of the text book (pp:800-809)	Understanding of derivative market and instruments
39	Case study	Case Bank (IIM Ahmedabad)	Analytical skills and decisive skills
40	Revision and question paper discussion		

Internal Quality Assurance Cell
Jaipuria Institute of Management
Indirapuram, Ghaziabad


In-charge
Internal Quality Assurance Cell

Result Analysis

Subject: Financial Management

BATCH 2017-19

Marks Secured	No of students	Percentage (Student)
less than 50%	04	2%
50%- 60%	47	28%
61% - 75%	95	58%
More than 75%	17	10%
Total Appeared	163	

BATCH 2016-18

Marks Secured	No of students	Percentage (Student)
less than 50%	19	11%
50%- 60%	43	25%
61% - 75%	75	44%
More than 75%	33	19%
Total Appeared	170	


Remedial Action

From the above analysis the remedial action should be teaching and guiding students to improve their academic results. The objective should be to:

1. To increase the number of student with more than 75%.
2. To ensure zero back paper or less than 50%.
3. To increase the number /percentage of students in the category of 60% -75%.

To increase the average marks by 3-5%

Internal Quality Assurance Cell
Jaipuria Institute of Management
Indirapuram, Ghaziabad


in-charge
Internal Quality Assurance Cell

JAIPURIA INSTITUTE OF MANAGEMENT
FINANCIAL MANAGEMENT – KMB 204

TUTORIAL 1

UNIT I

1. What is wealth Maximisation?
2. What is time value of money?
3. What is the goal of firm?
4. What is corporate finance?
5. Define CAPM model.

UNIT II

1. Write opportunity cost principle,
2. What is cost of Capital?
3. What is Capital Budgeting?
4. NPV Vs IRR
5. Non discounting method of Capital budgeting.

UNIT III

1. What is cost of Capital?
2. Define financial leverage?
3. Explain EBIT-EPS Analysis
4. Define leverage
5. What is trading on Equity?

Internal Quality Assurance Cell
Jaipuria Institute of Management
Indrapuram, Ghaziabad


In-charge
Internal Quality Assurance Cell

Long / Practical Questions

TUTORIAL 1

Time value of Money

1. Explain the concept of time value of money and its application in wealth maximization objective of firm.

2. How much will Rs10,00,000 placed in a bank account paying 5% per year be worth compounded annually? Determine future value.

3. Practice Quiz Questions: PV and FV

Review Problems

1. How much must you deposit today in a bank account paying interest compounded quarterly:

a. if you wish to have Rs10,000 at the end of 3 months, if the bank pays 5.0% APR?

Answer: Rs9,877

b. if you wish to have Rs50,000 at the end of 24 months, if the bank pays 8.0% APR?

Answer: Rs42,675

c. if you wish to have Rs6,000 at the end of 12 months, if the bank pays 9.0% APR?

Answer: Rs5,489

2. a. What rate of interest [APR] is the bank charging you if you borrow Rs77,650 and must repay Rs80,000 at the end of 2 quarters, if interest is compounded quarterly?

Answer: 6.0% APR

b. What rate of interest [APR] is the bank charging you if you borrow Rs49,000 and must repay Rs50,000 at the end of 3 months, if interest is compounded monthly?

Answer: 8.0% APR

3. How much must you deposit today in a bank account paying interest compounded monthly:

a. if you wish to have: Rs10,000 at the end of 1 months, if the bank pays 5.0% APR ?

Answer: Rs9,959

Internal Quality Assurance Cell
Jaipuria Institute of Management
Indrapuram, Chaziabad

In-charge
Internal Quality Assurance Cell

b. if you wish to have: Rs6,000 at the end of 6 months, if the bank pays 9.0% APR ?

Answer: Rs5,737

c. if you wish to have: Rs12,000 at the end of 12 months, if the bank pays 6.0% APR ?

Answer: Rs11,303

4. If interest is compounded quarterly, how much will you have in a bank account:

a. if you deposit today Rs8,000 at the end of 3 months, if the bank pays 5.0% APR ?

Answer: Rs8,100

b. if you deposit today Rs10,000 at the end of 6 months, if the bank pays 9.0% APR ?

Answer: Rs10,455

c. if you deposit today Rs80,000 at the end of 12 months, if the bank pays 8.0% APR ?

Answer: Rs86,595

d. if you deposit today Rs5,000 at the end of 24 months, if the bank pays 5.0% APR ?

Answer: Rs5,522

5. If interest is compounded monthly, how much will you have in a bank account,

a. if you deposit today Rs8,000 at the end of 3 months, if the bank pays 5.0% APR ?

Answer: Rs8,100

b. if you deposit today Rs10,000 at the end of 6 months, if the bank pays 9.0% APR ?

Answer: Rs10,459

c. if you deposit today Rs80,000 at the end of 12 months, if the bank pays 8.0% APR ?

Answer: Rs86,640

d. if you deposit today £5,000 at the end of 24 months, if the bank pays 5.0% APR ?

Answer: Rs5,525

Internal Quality Assurance Cell
Jaipuria Institute of Management
Indirapuram, Ghaziabad

060

In-charge
Internal Quality Assurance Cell

TUTORIAL 2

Capital Budgeting

1. Explain the process of capital Budgeting and Discounting and Non discounting Techniques.

2. A company is considering which of two mutually exclusive projects it should undertake. The Finance Director thinks that the project with the higher NPV should be chosen whereas the Managing Director thinks that the one with the higher IRR should be undertaken especially as both projects have the same initial outlay and length of life . The company anticipates a cost of capital of 10% and the net after-tax cash flows of the projects are as follows :-

(Rs. '000)

Year	0	1	2	3	4	5
Cash flows :						
Project X	(200)	35	80	90	75	20
Project Y	(200)	218	10	10	4	3

Required :

- Calculate the **NPV** and **IRR** of each project.
- State, with reasons, which project you would recommend.
- Explain the inconsistency in the ranking of the two projects.

3. What is pay backperiod ? Calculate Payback period of the following project?

4. The project will cost Rs. 50000 and will have life and no salvage value. Tax rate is 50% .The Company follows straight line method of depreciation. The net earnings before depreciation and tax are as follows:

EBDT are

- 10000
- 11000
- 14000
- 15000
- 25000

Internal Quality Assurance Cell
Jaipuria Institute of Management
Indrapuram, Ghaziabad

Evaluate the project using: (i) Payback period (ii) ARR

In-charge
Internal Quality Assurance Cell

TUTORIAL 3

Capital Structure/ Cost of Capital

1. A firm has the following capital structure and after-tax costs for the different sources of funds used:

<i>Source of Funds</i>	<i>Amount(Rs.)</i>	<i>Proportion (%)</i>	<i>After-tax Cost(%)</i>
Debt	13,50,000	30	7
Preference Capital	11,25,000	25	10
Equity Capital	20,25,000	45	15
	45,00,000	100	

- (a) Calculate the weighted average cost of capital using book-value weights.
- (b) The firm wishes to raise further Rs. 18,00,000 for the expansion of the project as below.
- | | |
|--------------------|--------------|
| Debt | Rs. 9,00,000 |
| Preference Capital | Rs. 4,50,000 |
| Equity Capital | Rs. 4,50,000 |

Assuming that specific costs do not change, compute the weighted marginal cost of capital.

2. Define optimum Capital structure? What are the different theories of capital structure? Differentiate NI and NOI Approach.

3. Explain in Detail the MM approach and its implications.

2. The following is an extract from the financial statement of PQR Ltd.

	Rs. lakhs
(Operating Profit	210
: Interest on debentures	66
	144
Less:	
Income-tax (50%)	72
Net Profit	

Internal Quality Assurance Cell
Jaipuria Institute of Management
Indirapuram, Ghaziabad

In-charge
Internal Quality Assurance Cell


72

Equity Share capital (shares of Rs.10 each)	400
Reserves and Surplus	200
15%Non-convertible debentures (of Rs.100 each)	<u>440</u>
	1040

The market price per equity share Rs.12 and per debenture Rs.93.75.

1. What is the earning per share?
2. What is the percentage cost of capital to the company for the debenture funds and the equity?

Internal Quality Assurance Cell
Jaipuria Institute of Management
Indrapuram, Gurgaon


In-charge
Internal Quality Assurance Cell

TUTORIAL 4

Dividend Decision

1. Explain the relevance and irrelevance approach of dividend decision.
2. What are dividend decisions? Explain the types of dividend Policy.
- 3.1. A company has a total investment of Rs 5,00,000 in asset and 50,000 ordinary shares at Rs 10 per share(Par Value). It earns a rate of 15% on its investment and has a policy of retaining 50% of the earnings. If the appropriate discount rate of the firm is 10%, determine the price of its share using Gordon's Model. What shall happen to the price of the share, if the company has a pay-out of 80% or 20%.
4. ABC Ltd was started a year back with paid – up equity capital of Rs. 40, 00,000. The details are as under:

Earnings of the company Rs. 4, 00,000

Price- Earnings Ratio 12.5

Dividend Paid Rs. 3,20,000

Number of Shares 40,000

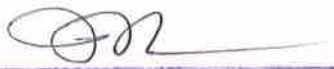
You are required to find out whether the company's dividend pay out ratio is optimal using Walter's Formula.

TUTORIAL 5

Mutual Fund and Derivatives

1. Explain Mutual funds and discuss the types of mutual fund
2. What is capital Market? What role does it play in the Indian financial system?
3. Define Money market and its components. Explain all the money market instruments.
4. What are derivatives? Differentiate future and option.

Internal Quality Assurance Cell
Jaipuria Institute of Management
Indirapuram, Ghaziabad


In-charge
Internal Quality Assurance Cell

MBA I Semester

KMB 204 Financial management

ASSIGNMENT I

Date of Submission.....

Question 01: "Finance is the back bone of any organization". In the light of above statements elaborate the decisions involved in financial management and the role of finance manager in the changing economic scenario.

Question 02: What is time value of money and its relevance in financial decision making Explain with the help of suitable illustrations?

Question03: You plan to borrow Rs.389, 000 now and repay it in 05 equal annual installments (payments will be made at the end of each year). If the annual interest rate is 14%, how much will your annual payments be?

Question 04: Initial cost of investing in a machine is is 50,000

year	Machine X	Machine Y
1	15,000	5000
2	20,000	15000
3	25,000	20000
4	15,000	30000
5	10,000	20000

Evaluate on the basis of ARR and pay back.

Question 05: What is corporate finance? Identify the role of finance manager in a firm. Also discuss the major decisive roles.

Question 06: A project requires an investment of Rs. 10,00,000. The plant & machinery required under the project will have a scrap value of Rs. 80,000 at the end of its useful life of 5 years. The profits after tax and depreciation are estimated to be as follows:

Year PAT (Rs)

1. 50000

2. 75000

3. 125000

4. 130000

5. 80000 Calculate ARR using above formula.

Internal Quality Assurance Cell
Jaipuria Institute of Management
Indirapuram, Ghaziabad

In-charge
Internal Quality Assurance Cell

MBA I Semester

KMB 204 Financial management

ASSIGNMENT II

Date of Submission.....

1. The capital structure of a company plays a very important role in the financial planning and profitability. Explain the major components of capital structure highlighting the need of an appropriate capital mix for the company.

2. ABC Co. and XYZ Co. are identical firms in all respects except for their capital structure. ABC is all-equity financed with Rs 60,00,000 in stock. XYZ uses both stock and perpetual debt; its stock is worth Rs 300, 00,000 and the interest rate on its debt is 10 percent. Both firms expect EBIT to be Rs.73, 00,000. Ignore taxes.

- a. Rico owns Rs 30, 00,000 worth of XYZ's stock. What rate of return is she expecting?
- b. Show how Rico could generate exactly the same cash flows and rate of return by investing in ABC and using homemade leverage.
- c. What is the cost of equity for ABC? What is it for XYZ?

3. Calculate the cost of capital for the following capital mix.

- 1. Debenture of Rs 1, 00,000 at 7% (Tax rate 35%)
- 2. Preference share Rs.200, 000 at 8%.
- 3. Equity capital 5,00,000 at a share price of Rs.135 with a growth rate of 5% and ROE of 12%

4. XYZ company, at present has an all equity capital structure of all equity capital structure of 40,000 shares of Rs 10 each. For its new expansion project, the company proposes to raise either by equity by taking debt. New equity shares can be issued at Rs 12.5 per share. Debt financing is available at 14% interest per annum. The company is not certain about the EBIT level and has estimated the EBIT under different scenarios as follows.

Scenario	EBIT Estimate
Recession	Rs 1,00,000
Normal/Expected	Rs. 1,80,000
Boom	Rs. 2,40,000

The rate of income tax applicable is 30%.

(a) Determine the Earning per Share of the company under the three scenarios if the new project is funded by equity.

(b) Determine the Earning per Share of the company under the three scenarios if the new project is funded by debt.

(c) What will be the EBIT Indifference (Break even) point between debt and equity financing?

Internal Quality Assurance Cell
Jaipuria Institute of Management
Indrapuram, Ghaziabad

054

In-charge
Internal Quality Assurance Cell

MBA I Semester

KMB 204 Financial management

ASSIGNMENT I


Date of Submission.....

Question 01: "Finance is the back bone of any organization". In the light of above statements elaborate the decisions involved in financial management and the role of finance manager in the changing economic scenario.

Question 02: What is time value of money and its relevance in financial decision making Explain with the help of suitable illustrations?

Question 03: You plan to borrow Rs.389, 000 now and repay it in 05 equal annual installments (payments will be made at the end of each year). If the annual interest rate is 14%, how much will your annual payments be?

Internal Quality Assurance Cell
Jaipuria Institute of Management
Indirapuram, Ghaziabad


In-charge
Internal Quality Assurance Cell

MBA I Semester

KMB 204 Financial management

ASSIGNMENT II

Date of Submission.....

1. The capital structure of a company plays a very important role in the financial planning and profitability. Explain the major components of capital structure highlighting the need of an appropriate capital mix for the company.

2. ABC Co. and XYZ Co. are identical firms in all respects except for their capital structure. ABC is all-equity financed with Rs 60,00,0000 in stock. XYZ uses both stock and perpetual debt; its stock is worth Rs 300, 00,000 and the interest rate on its debt is 10 percent. Both firms expect EBIT to be Rs.73, 00,000. Ignore taxes.

- a. Rico owns Rs 30, 00,000 worth of XYZ's stock. What rate of return is she expecting?
- b. Show how Rico could generate exactly the same cash flows and rate of return by investing in ABC and using homemade leverage.
- c. What is the cost of equity for ABC? What is it for XYZ?

2. Calculate the cost of capital for the following capital mix.

1. Debenture of Rs 1, 00,000 at 7% (Tax rate 35%)
2. Preference share Rs.200, 000 at 8%.
3. Equity capital 5,00,000 at a share price of Rs.135 with a growth rate of 5% and ROE of 12%

Internal Quality Assurance Cell
Jaipuria Institute of Management
Indirapuram, Ghaziabad

In-charge
Internal Quality Assurance Cell

JAIPURIA INSTITUTE OF MANAGEMENT
FINANCIAL MANAGEMENT – KMB 204

QUIZ - 1

(UNIT - I)

1. Which of the following is not the responsibility of financial management?
 - a) allocation of funds to current and capital assets
 - b) obtaining the best mix of financing alternatives
 - c) preparation of the firm's accounting statements
 - d) development of an appropriate dividend policy

2. Which of the following are not among the daily activities of financial management?
 - a) sale of shares and bonds
 - b) credit management
 - c) inventory control
 - d) the receipt and disbursement of funds

3. _____ and _____ are the two versions of goals of the financial management of the firm.
 - a) Profit maximisation, Wealth maximization
 - b) Production maximisation, Sales maximisation
 - c) Sales maximisation, Profit maximization
 - d) Value maximisation, Wealth maximization

4. "Shareholder wealth" in a firm is represented by:
 - a) the number of people employed in the firm.
 - b) the book value of the firm's assets less the book value of its liabilities
 - c) the amount of salary paid to its employees.
 - d) the market price per share of the firm's common stock.

5. The long-run objective of financial management is to:
 - a) maximize earnings per share.
 - b) maximize the value of the firm's common stock.
 - c) maximize return on investment.
 - d) maximize market share

6. In the _____, the future value of all cash inflow at the end of time horizon at a particular rate of interest is calculated.
 - a) Risk-free rate
 - b) Compounding technique
 - c) Discounting technique
 - d) Risk Premium

7. When _____ is greater than zero the project should be accepted.

Internal Quality Assurance Cell
Jaipuria Institute of Management
Indrapuram, Ghaziabad

In-charge 
Internal Quality Assurance Cell

a) Internal rate of return

b) Profitability index

c) Net present value

d) Modified internal rate of return

8. _____ is defined as the length of time required to recover the initial cash out-lay.

a) Payback-period

b) Inventory conversion period

c) Discounted payback-period

d) Budget period

9. A capital investment is one that

a) has the prospect of long-term benefits.

b) has the prospect of short-term benefits.

c) is only undertaken by large corporations.

d) applies only to investment in fixed assets.

10. A project's profitability index is equal to the ratio of the of a project's future cash flows to the project's


a) present value; initial cash outlay

b) net present value; initial cash outlay

c) present value; depreciable basis

d) net present value; depreciable basis

Internal Quality Assurance Cell
Jaipuria Institute of Management
Indirapuram, G.azipur


In-charge
Internal Quality Assurance Cell

JAIPURIA INSTITUTE OF MANAGEMENT
FINANCIAL MANAGEMENT – KMB 204

UNIT - 2

QUIZ - 2

1. To increase a given present value, the discount rate should be adjusted
 - a) upward.
 - b) downward.
 - c) No change.
 - d) constant

2. The term "capital structure" refers to:
 - a) Long-term debt, preferred stock, and common stock equity.
 - b) Current assets and current liabilities.
 - c) total assets minus liabilities.
 - d) Shareholders' equity.

3. A critical assumption of the net operating income (NOI) approach to valuation is:
 - a) that debt and equity levels remain unchanged.
 - b) that dividends increase at a constant rate.
 - c) that k_0 remains constant regardless of changes in leverage.
 - d) that interest expense and taxes are included in the calculation.

4. Reserves & Surplus are which form of financing
 - a) Security Financing
 - b) Internal Financing
 - c) Loans Financing
 - d) International Financing

5. In the _____, the future value of all cash inflow at the end of time horizon at a particular rate of interest is calculated.
 - a) Risk-free rate
 - b) Compounding technique
 - c) Discounting technique
 - d) Risk Premium

6. Debt Equity Ratio is 3:1, the amount of total assets Rs.20 lac, current ratio is 1.5:1 and owned funds Rs.3 lac. What is the amount of current asset?
 - a) Rs.5 lac
 - b) Rs.3 lac
 - c) Rs.12 lac
 - d) none of the above.

7. Banks generally prefer Debt Equity Ratio at:
 - a) 1:1
 - b) 1:3
 - c) 2:1
 - d) 3:1

Internal Quality Assurance Cell
Jaipuria Institute of Management
Indrapuram, Ghaziabad

In charge
Internal Quality Assurance Cell

8. An asset is a

- a) Source of fund
- b) Use of fund
- c) Inflow of funds
- d) none of the above.

9. If a company issues bonus shares the debt equity ratio will

- a) Remain unaffected
- b) Will be affected
- c) Will improve
- d) None of the above.

10. In MM model MM stands for...

- a) M.Khan and Modigliani
- b) Miller and M.Khan
- c) Modigliani and M.Khan
- d) Miller and Modigliani

Internal Quality Assurance Cell
Jaipuria Institute of Management
Indrapuram, Ghaziabad


In-charge
Internal Quality Assurance Cell

Answer Key

Quiz 1

1. A

2. A

3. D

4. D

5. A

6. C

7. C

8. A

9. A

10. B

Answer Key to Quiz 2

1. B

2. A

3. D

4. B

5. B

6. C


7. C

8. A

9. B

10. D

Internal Quality Assurance Cell
Jaipuria Institute of Management
Indrapuram, Ghaziabad

In-charge 
Internal Quality Assurance Cell

Answer Key to Quiz 3

1.A

2.B

3 C

4 D

5 B

6 B

7 D

8 C

9 B

10 C

QUIZ 4

1.B

2.D

3 A

4 A

5 C

6 C

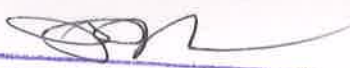
7 C

8 B

9 B

10 C

Internal Quality Assurance Cell
Jaipuria Institute of Management
Indrapuram, Ghaziabad


In-charge
Internal Quality Assurance Cell

Answer Key to Quiz 5

1.B

2.C

3 A

4 D

5 C

6 C

7 C

8 B

9 B

10 C

11 C


12 A

13 B

14 B

15 b

Internal Quality Assurance Cell
Jaipuria Institute of Management
Indirapuram, Ghaziabad


In-charge
Internal Quality Assurance Cell

JAIPURIA INSTITUTE OF MANAGEMENT
FINANCIAL MANAGEMENT – KMB 204

QUIZ – 3

UNIT - III
CAPITAL STRUCTURE
Theories

1. _____ of a firm refers to the composition of its long-term funds and its capital structure.

- a) Capitalisation
- b) Over-capitalisation
- c) Under-capitalisation
- d) Market capitalization

2. Categories of cash flows are included

- a) a.net initial investment
- b) b.cash flow from operations after paying taxes
- c) c.cash flow from terminal disposal after paying taxes
- d) d.all of above

3. In 3 years you are to receive 15,000. If the interest rate were to suddenly increase, the present value of that future amount to you would

- a) fall
- b) rise
- c) remains unchanged
- d) cannot be determined


4. $(1 + i)^n$

- a) PVIF
- b) FVIF
- c) PVIFA
- d) FVIFA

5. You can use ____ to roughly estimate how many years a given sum of money must earn at a given compound annual interest rate in order to double that initial amount.


- a) Rule 415
- b) b the Rule of 72
- c) c the Rule of 78
- d) the Rule 144

Internal Quality Assurance Cell
Jaipuria Institute of Management
Indrapuram, Gaziabad

In-charge 
Internal Quality Assurance Cell

6. The clientele effect refers to
- (a) the relevance of dividend policy on share value.
 - (b) the firm's ability to attract stockholders whose dividend preferences are similar to the firm's dividend policy.
 - (c) the informational content of dividends.
 - (d) the "bird-in-the-hand" argument.
7. Modigliani and Miller suggest that the value of the firm is not affected by the firm's dividend policy, due to
- (a) the relevance of dividends.
 - (b) the clientele effect.
 - (c) the informational content.
 - (d) the optimal capital structure.
8. Modigliani and Miller, recognizing that dividends do somehow affect stock prices, suggest that positive effects of dividend increases are attributable
- (a) directly to the dividend policy.
 - (b) directly to the optimal capital structure.
 - (c) not to the informational content but to the consistency in the payment of dividends.
 - (d) not to the dividend itself but to the informational content of the dividends with respect to future earnings.
9. Modigliani and Miller argue that when the firm has no acceptable investment opportunities, it should
- (a) close its doors.
 - (b) distribute the unneeded funds to the owners.
 - (c) lower its cost of capital.
 - (d) retain the funds until an acceptable project arises.
10. Gordon's "bird-in-the-hand" argument suggests that
- (a) dividends are irrelevant.
 - (b) firms should have a 100 percent payout policy.
 - (c) shareholders are generally risk averse and attach less risk to current dividends.
 - (d) the market value of the firm is unaffected by dividend policy.

Internal Quality Assurance Cell
Jaipuria Institute of Management
Indrapuram, Ghaziabad


In-charge
Internal Quality Assurance Cell

JAIPURIA INSTITUTE OF MANAGEMENT
FINANCIAL MANAGEMENT – KMB 204

UNIT - IV
working capital
Management

QUIZ - 4

1. The addition of all current assets investment is known as...
 - a. Net Working Capital
 - b. Gross Working capital
 - c. Temporary Working Capital
 - d. All of these

2. When total current assets exceed total current liabilities it refers to.
 - a. Gross Working Capital
 - b. Temporary Working Capital
 - c. Both a and b
 - d. Net Working Capital

3. A payment made by a firm to its owners in the form of new shares of stock is called a _____ dividend.
 - a. stock
 - b. normal
 - c. special
 - d. extra

4. Payments made out of a firm's earnings to its owners in the form of cash or stock are called:
 - a. dividends.
 - b. distributions.
 - c. share repurchases.
 - d. payments-in-kind.

5. A cash payment made by a firm to its owners in the normal course of business is called a:
 - a. share repurchase.
 - b. liquidating dividend.
 - c. regular cash dividend.
 - d. special dividend.

6. XYZ is an oil based business company, which does not have adequate working capital. It fails to meet its current obligation, which leads to bankruptcy. Identify the type of decision involved to prevent risk of bankruptcy.
 - a) Investment decision
 - b) Dividend decision
 - c) Liquidity decision
 - d) Finance decision

7. Net working capital refers to
 - a) total assets minus fixed assets.
 - b) current assets minus current liabilities.
 - c) current assets minus inventories.
 - d) current assets.

8. Marketable securities are primarily
 - a) short-term debt instruments.
 - b) short-term equity securities.
 - c) long-term debt instruments.
 - d) long-term equity securities.

Internal Quality Assurance Cell
Jaipuria Institute of Management
Indrapuram, Gurgaon

[Signature]
In-charge
Internal Quality Assurance Cell

09. According to the residual theory of dividends, if the firm's equity need exceeds the amount of retained earnings, the firm would
- (a) borrow to pay the cash dividend.
 - (b) sell additional stock to pay the cash dividend.
 - (c) pay no cash dividends.
 - (d) not need to consider its dividend policy.
10. According to the residual theory of dividends, if the firm's equity need is less than the amount of retained earnings, the firm would
- (a) borrow to pay the cash dividend.
 - (b) declare a dividend equal to the remaining balance.
 - (c) pay no cash dividends.
 - (d) not need to consider its dividend policy

Internal Quality Assurance Cell
Jaipuria Institute of Management
Indrapuram, Ghaziabad

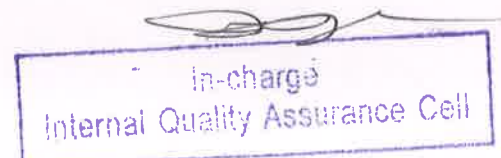

In-charge
Internal Quality Assurance Cell

FINANCIAL MANAGEMENT – KMB 204

QUIZ - 5

UNIT V

1. The clientele effect refers to
 - (a) the relevance of dividend policy on share value.
 - (b) the firm's ability to attract stockholders whose dividend preferences are similar to the firm's dividend policy.
 - (c) the informational content of dividends.
 - (d) the "bird-in-the-hand" argument.
2. Modigliani and Miller suggest that the value of the firm is not affected by the firm's dividend policy, due to
 - (a) the relevance of dividends.
 - (b) the clientele effect.
 - (c) the informational content.
 - (d) the optimal capital structure.
3. Modigliani and Miller, recognizing that dividends do somehow affect stock prices, suggest that positive effects of dividend increases are attributable
 - (a) directly to the dividend policy.
 - (b) directly to the optimal capital structure.
 - (c) not to the informational content but to the consistency in the payment of dividends.
 - (d) not to the dividend itself but to the informational content of the dividends with respect to future earnings.
4. Modigliani and Miller argue that when the firm has no acceptable investment opportunities, it should
 - (a) close its doors.
 - (b) distribute the unneeded funds to the owners.
 - (c) lower its cost of capital.
 - (d) retain the funds until an acceptable project arises.
5. Gordon's "bird-in-the-hand" argument suggests that
 - (a) dividends are irrelevant.
 - (b) firms should have a 100 percent payout policy.
 - (c) shareholders are generally risk averse and attach less risk to current dividends.
 - (d) the market value of the firm is unaffected by dividend policy.
6. Proponents of the dividend irrelevance theory argue that, all else being equal, an investor's required return and the value of the firm are unaffected by dividend policy, for all of the following reasons, EXCEPT
 - (a) the firm's value is determined solely by the earning power and risk of its assets.
 - (b) investor's are generally risk averse and attach less risk to current as opposed to future dividends or capital gains.
 - (c) if dividends do affect value, they do so solely because of their information content, which signals managements' earnings expectations.
 - (d) a clientele effect exists which causes a firm's shareholders to receive the dividends that they expect.



7. The factors involved in setting a dividend policy include all of the following EXCEPT
- (a) restrictive covenants in a bond indenture.
 - (b) growth prospects.
 - (c) the legal prohibition on paying dividends which exceed current earnings.
 - (d) capital impairment restrictions.
8. The dividend policy must be formulated considering two basic objectives, namely
- (a) delaying the tax liability of the stockholder and information content.
 - (b) maximizing shareholder wealth and delaying the tax liability of the stockholder.
 - (c) maximizing shareholder wealth and providing for sufficient financing.
 - (d) maintaining liquidity and minimizing the weighted average cost of capital.
9. The problem with a constant-payout-ratio dividend policy from the shareholder's perspective is that
- (a) it bores the shareholders.
 - (b) if the firm's earnings drop, so does the dividend payment.
 - (c) even when earnings are low, the company must pay a fixed dividend.
 - (d) there is no informational content.
10. The problem with the regular dividend policy from the firm's perspective is that
- (a) it bores the shareholders.
 - (b) if the firm's earnings drop, so does the dividend payment.
 - (c) even when earnings are low, the company must pay a fixed dividend.
 - (d) it increases the shareholders' uncertainty.
11. The advantage of using the low-regular-and-extra dividend policy is that
- (a) the firm avoids giving the shareholders false hopes.
 - (b) if the firm's earnings drop, so does the dividend payment.
 - (c) the extra dividend may become a regular event.
 - (d) cyclical shifts in earnings may be avoided
12. Spontaneous financing includes
- a) accounts receivable. b) accounts payable. c) short-term loans. d) a line of credit.
13. Permanent working capital
- a) varies with seasonal needs.
 - b) is the amount of current assets required to meet a firm's long-term minimum needs
 - c). includes fixed assets.
 - d) includes accounts payable

Internal Quality Assurance Cell
Jaipuria Institute of Management
Indirapuram, Ghaziabad

In-charge
Internal Quality Assurance Cell

14. The residual theory of dividends suggests that dividends are _____ to the value of the firm.
residual(b) relevant(c) irrelevant(d) integral

15. The information content of dividends refers (a) nonpayment of dividends by corporations.

(b) dividend changes as indicators of a firm's future.

(c) a stable and continuous dividend.

(d) a dividend paid as a percent of current earnings

In-charge
Internal Quality Assurance Cell

Internal Quality Assurance Cell
Jaipuria Institute of Management
Indirapuram, Ghaziabad

JAIPURIA INSTITUTE OF MANAGEMENT
FINANCIAL MANAGEMENT – KMB 204

QUESTION BANK

UNIT -1 (Short Questions)


1. Define finance function
2. Define financial management
3. Profit vs. wealth maximization
4. Total risk equals to diversifiable and non-diversifiable.
5. Explain wealth maximization.
6. What is time value of money
7. Explain rule of 72
8. Systematic Vs. Unsystematic risk
9. Relevance of CAPM model
10. Primary vs. Secondary Market

UNIT -2

1. What is capitalization?
2. What is preference share?
3. What is right issue?
4. Define sweat Equity
5. What is bonus Share?
6. What is IRR?
7. What are deep discount bonds?
8. Define pay back method
9. What are Debentures?
10. What is marginal cost of capital?
11. What is NPV ?

UNIT 3

1. Define financial Leverage
2. Define EBIT-EPS Analysis
3. Define Retained Earnings
4. Explain debt free company
5. Define pecking order theory
6. Explain Trading on Equity


In-charge
Internal Quality Assurance Cell

Internal Quality Assurance Cell
Jaipuria Institute of Management
Indrapuram, Coimbatore

UNIT 4

1. What is Gordon model
2. Explain dividend policy
3. Define Dividend
4. What is Ploughing back of profit?
5. What is retention Ratio?

UNIT 5

1. Define Operating cycle
2. Explain JIT
3. What is Zero working Capital?
4. Define Receivables
5. Define Factoring
6. What is ABC analysis
7. What is inventory Control?

Long Questions(UNIT 1-5)

1. "The principle focus of finance is on decisions and actions which affects the value of firm". How does financial management help to maximize it?
2. Explain meaning nature and scope of business finance.
3. Differentiate profit maximization and wealth maximization.
4. Explain the concept of time value of money.
5. Profit maximization does not provide manager with operational efficiency. Critically Evaluate.
6. Financial management has changed substantially in scope and complexity in the recent decades. How would you account for this trend? In what respect modern day finance differ from traditional in their scope.
7. Write a detailed note on Indian financial system
8. What is leverage? Explain its types and limitations
9. What are the different sources of capital? Explain
10. Discuss the basic features of Equity Share, preference share and Debenture.
11. Write short notes on; Trade credit, Accrued Expenses and Deferred income
12. Explain the relevance approach of Dividend with the help of Walters model
13. Write a note on MM approach of capital structure
14. Write a detailed note on Inventory management Techniques
15. What is weighted average cost of Capital? How it is calculated? Explain

16. Differentiate between NI and NOI approach of capital planning
17. Explain the demerits of over and Under capitalization
18. What is working Capital? Explain its determinants and components.
19. What is Capital Budgeting? Differentiate between NPV and IRR
20. Write short notes on
 - a. Cash Management
 - b. Receivables
 - c. EBIT – EPS analysis


In-charge
Internal Quality Assurance Cell

Internal Quality Assurance Cell
Jaipuria Institute of Management
Indrapuram, Ghaziabad

JAIPURIA INSTITUTE OF MANAGEMENT
FIRST MID TERM TEST: APRIL'2017
M.B.A. – II SEMESTER
RMB –204: FINANCIAL MANAGEMENT

MAX. TIME: 2 HR.

MAX. MARKS: 50

NOTE: Attempt questions from each section as per directions.

Section A

Q1. Short Answer Question

(2x10)

- a) Define the term Wealth Maximization.
- b) What are different finance decisions?
- c) Write a note on Capital Budgeting.
- d) What is Rule of 72?
- e) What is the New issue Market?
- f) Types of Risk
- g) What is weighted average Cost of Capital?
- h) Explain CAPM Model.
- i) Future Value vs. Present Value
- j) Define Sweat equity and Right issue.

Section B

Attempt all parts. Each part carries 10 marks

(10x3)

- Q2** The initial investment for two mutually exclusive projects is Rs 5, 00,000. The project is depreciated on straight line basis. Evaluate the plans on the basis of ARR and payback period. Also write the advantages of calculating ARR. Tax rate 30%.

The cash flows from the plans are:

Year	(Amt. in Rs)PLAN A.	PLAN B
1	1,85,000	2,10,000
2	2,10,000	95,000
3	1,15,000	1,25,000
4	1,00,000	180,000
5	75,000	55,000
Salvage value	30,000	25,000

- Q3.** A project is expected to generate following cash flows in 5 years. Calculate the NPV and PI of the project for selecting the project and compare both the methods.

Year	Cash outflow	Cash inflow	PV factor
0	2,00,000	-	
1	00	1,65,000	.909
2	1,35,000	98,000	.826
3	85,000	1,23,000	.751
4		2,05,000	.683
5		1,45,000	.621

Internal Quality Assurance Cell
Jaipuria Institute of Management
Mirzapuram, Chandrabad

In-charge
Internal Quality Assurance Cell

Q4. Calculate the Weighted Average cost of capital from the following details.

The company has issued 15% debenture with a face value of Rs 1000 on a discount of 10%.

The equity share of the company is expected to earn a dividend of Rs 5 per share and is currently selling at Rs115. The expected growth rate is 4.5%. The preference capital is issued at 15%. The capital structure is as follows. Tax rate 50%

S.No	Source	Amount in Rs.
1	Debenture	20,00,000
2	Equity	35,00,000
3	Preference share	15,00,000
4	Retained Earnings	25,00,000

xxx

In-charge
Internal Quality Assurance Cell

Internal Quality Assurance Cell
Jaipuria Institute of Management
Indrapuram, Chaziabad

JAIPURIA INSTITUTE OF MANAGEMENT
SECOND MID TERM TEST: APRIL '2017
M.B.A. – II SEMESTER
RMB –204: Financial Management

MAX. TIME: 3 HR.

MAX. MARKS: 100

NOTE: Attempt questions from each section as per directions.

Section A

Q1. Short Answer Question

(2x10)

- a) Define the term Wealth Maximization.
- b) What are dividend decisions?
- c) Write a note on Cash cycle.
- d) What is Leverage?
- e) What is the role of receivables in financial management?
- f) Undercapitalization vs. Overcapitalization
- g) What is Cost of Capital?
- h) Define Pecking order Theory
- i) What is point of Indifference?
- j) Define Sweat equity and Right issue.

Section B

Attempt any three parts from this section. Each part carries 10 marks


(10x3)

- Q2.**
- a) Explain the NI and NOI approach of capital structure with the help of suitable illustrations.
 - b) Write a note on types of dividend policy.
 - c) Discuss the basic features of different sources of capital and differentiate between Equity Share, and Debenture.
 - d) Calculate the operating, Financial and combined leverage from the following financial plans.
Plant operational capacity is 4000 units and producing at 75% Capacity.

	Particulars	(Amt. in Rs)PLAN A.	PLAN B
1	Selling price per unit	30	30
2	Variable cost per unit	15	15
3	Fixed cost	15,000	20,000
4	Debt	10,000	15000
5	Equity (20%)	10,00,	5,000

- e) A project costs Rs.36, 000 and is expected to generate cash flows of Rs.11, 200 annually for 5 years. Calculate the IRR, and payback period of the project.

Internal Quality Assurance Cell
Jaipuria Institute of Management
Indrapuram, Ghaziabad


In-charge
Internal Quality Assurance Cell

032

Section C

Attempt all questions from this section. Each question carries 10 marks.

(10x5)

Q3. Write a detailed note on Indian Financial system and its various components

Or

“The principle focus of finance is on decisions and actions which affects the value of firm”. How does financial management help to maximize it?

Q4. What is working Capital? What are the various ways of financing working capital?

Or

Write notes on a) Residual approach and b) CAPM model

Q5. Explain in detail the theories of dividend distribution with the help of suitable illustration.

Or

What is the MM approach of capital structure planning? Write its assumptions and concept.

Q6. A company has equity share capital of Rs 2,50,000 with a face value of Rs. 10 and market value of Rs.20. It has a debt of Rs.1,00,00 at 10% .Assuming a tax rate of 50% and dividend of Rs.4 per share. Calculate the weighted average cost of capital.

Or

Calculate the working capital requirement from the following, Wages are paid in the next month and production is regular. Production 69,000 units, finished goods in store 3 months, Raw material 2 months, production process is for 1 month, credit allowed by creditors 2 months, credit given to debtors 3 months, selling price is Rs 50 per unit.

Raw material 50% of selling price, Direct wages 10%, manufacturing overheads 16% and selling overheads 4% of selling price.

Q7. The following information is available in respect of a firm:

Capitalization rate (K_e) = 10%

Earning Per Share (E) = Rs 10

Assumed rate of investments (r): a) 15% b) 8% and c) 10%

Show the effect of dividend policy on the market price of the share on the basis of Walter's model.

Or

A company belongs to a risk class with capitalization rate of 10%. It has currently 25,000 share outstanding selling at Rs.100 each. The firm has declared a dividend of Rs.5 at the end of Current financial year. It expects to have a net income of 2, 50,000 and propose to have a investment of Rs.5, 00,000. Show the affect of dividend decision on the basis of MM approach.

Internal Quality Assurance Cell
Jaipuria Institute of Management
Indirapuram, Ghaziabad

In-charge
Internal Quality Assurance Cell

031

--	--	--	--	--	--	--	--	--	--

M.B.A.

**THEORY EXAMINATION (SEM-II) 2016-17
FINANCIAL MANAGEMENT**

Time : 3 Hours

Max. Marks : 70

Note : Be precise in your answer. In case of numerical problem assume data wherever not provided.

SECTION – A

1. Explain the following:

7 x 2 = 14

- State the objectives of financial management.
- What is modern approach of finance function?
- Calculate the expected rate of return for security from the following information”
 $R_t = 10\%$, $R_m = 18\%$, $\beta_1 = 1.35$
- What are the contingent investments?
- What is profitability index?
- What are the measures of financial leverage?
- A firm’s sales, variable costs and fixed cost amount to Rs. 75,00,000, Rs. 42,00,000 and Rs. 6,00,0000 respectively. It has borrowed Rs. 45,00,000 at 9% and its equity capital totals Rs. 55,00,000. What is the firms ROI?

SECTION – B

2. Attempt any five of the following questions:

5 x 7 = 35

- “Finance is the lifeblood of industry”. Elucidate this statement with suitable examples.
- What is CAPM? Discuss about the assumptions and limitations of CAPM.
- An investor holds two equity shares X and Y in equal proportion with the following risk and return characteristics:
 $E(R_x) = 24\%$; $E(R_y) = 19\%$, $\sigma_x = 28\%$, $\sigma_y = 23\%$
The returns of these securities have a positive correlation of 0.6. you are required to calculate the portfolio return and risk. Further , suppose the investor wants to reduce the portfolio risk to 15%. What should be the correlation coefficient to bring the portfolio risk to the desired level?
- A project will cost Rs. 40,000. Its steam of earnings before depreciation, interest and taxes during first year through five years is expected to be Rs. 10,000, Rs. 12,000, Rs. 14,000, Rs. 16,000 and Rs. 20,000. Assume a 50% tax rate and depreciation on straight-line basis. Calculate the project’s ARR.
- A company has estimated that for a new product its selling price is Rs. 14 per unit, variable cost is Rs. 9 per unit and fixed cost is R.s 10,000. Calculate the operating leverage for sales volume of 3000 units and 4000 units. Also comment on the calculation of operating leverage.
- Explain how nature of business, market conditions and technology affect a firm’s working capital requirements.
- From the following particulars of XYZA Ltd. You are required to determine the working capital requirement:
 - Average amount locked up in stocks:**

Stocks of raw materials	Rs. 20,000 p.a.
Work-in-progress	Rs. 4,000 p.a.
Stock of finish goods	Rs. 30,000 p.a.
 - Credit period allowed to customers:**

Home market	2 weeks	Rs. 2,60,000
-------------	---------	--------------

Internal Quality Assurance Cell
Jaipur Institute of Management
030

Internal Quality Assurance Cell

Printed Pages: 4 NMBA-024/MBA-027/MB-205/MB-124

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

Paper ID : 270227

Roll No.

M.B.A.

Theory Examination (Semester-II) 2015-16

FINANCIAL MANAGEMENT

Time : 3 Hours

Max. Marks : 100

Section-A

1. Answer the following questions not more than 30 words each. (2×10=20)
- Define finance function.
 - What is difference between speculation and investment?
 - What is Net present value?
 - What is Gordon Model?
 - Define financial management.
 - What is operating cycle?

(1)

P.T.O.

406/342/1038/25950

Internal Quality Assurance Cell
Jaipuria Institute of Management
Indirapuram, Ghaziabad

In-charge
Internal Quality Assurance Cell

- (g) Differentiate between profit and wealth maximization.
- (h) What is capitalization?
- (i) What is pecking order theory?
- (j) Differentiate between systematic and unsystematic risk.

Section-B

2. Answer any five questions from this section. (10×5=50)

- (a) Define dividend function. Discuss its nature and scope.
- (b) Write a note on capital expenditure control.
- (c) Describe the Walter's formula regarding dividend policy.
- (d) What are the basic features of an optimum capital structure?
- (e) Explain the 'cash cycle concept' of working capital.
- (f) Explain any two factors affecting the size of investments in receivables.

(2)

406/342/1038/25950

- (g) Discuss any four factors affecting the level of cash.
- (h) What is meant by weighted average cost of capital? Explain this method with suitable illustration.

Section-C

Answer any two out of the following three: (15×2=30)

Q.3. Golden View Ltd. has a cost of equity capital of 12%, the current market value of the company (V) is Rs. 10,00,000 (@ Rs. 10 per share). Assume values for new investments (I), earnings (E) and dividends (D) at the end of first year as Rs. 3,40,000; Rs. 2,75,000 and Rs. 2.50 per share respectively. Show under M.M. assumptions, the payment of 'D' does not affect the value of the company.

Q.4. Rishi Ltd. has issued 1,000, 9% Preference Shares of Rs. 100 each at Rs. 95 per share. The flotation charges are underwriting commission 2%, brokerage 0.5% and printing Rs. 500. The company is subject to tax rate of 50%. Find out the cost of capital after tax and before tax.

What would be such cost, if shares had been issued at Rs. 105?

(3)

406/342/1038/25950

P.T.O.

Internal Quality Assurance Cell
Jaipuria Institute of Management
Indirapuram, Ghaziabad

In-charge
Internal Quality Assurance Cell

Q.5. A company has the following financial details :

EBIT Rs. 5,00,000 ; Debt Rs. 8,00,000, Cost of Debt 10%,
Cost of Equity 16%.

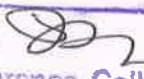
It has been observed that if debt is increased by Rs. 1,00,000
no change in the equity capitalization rate is observed but
when debt is increased by Rs. 2,00,000, equity capitaliza-
tion rate increases from 16% to 18%.

Explain the situation using traditional approach.

(4)

406/342/1038/25950

Internal Quality Assurance Cell
Jaipuria Institute of Management
Indrapuram, Ghaziabad

In-charge 
Internal Quality Assurance Cell

Printed Pages—4

MB204/MB124

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

PAPER ID : 270204

Roll No.

--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--

MBA

(SEM. II) THEORY EXAMINATION 2013-14

FINANCIAL MANAGEMENT

Time : 3 Hours

Total Marks : 100

Note :- Attempt questions from each Section as per instructions.

SECTION-A

1. Attempt **all** parts of this question in 50 to 75 words :

(2×10=20)

- (a) Explain Wealth Maximisation.
- (b) What is Time Value of Money ?
- (c) What are Debentures ? What are the types of debentures ?
- (d) What are the different capital budgeting decisions ?
- (e) What are retained earnings ? Is there a cost to retained earnings ?
- (f) What are bonus shares ? Why do companies issue bonus shares ?
- (g) Discuss the various forms of dividends.
- (h) What is ABC Approach ?
- (i) Explain Commercial Paper.
- (j) What is marginal cost of capital ? How is it determined ?

MB204/MB124/DOJ-21269

1

[Turn Over

Internal Quality Assurance Cell
Jaipuria Institute of Management
Indrapuram, Ghaziabad

In-charge
Internal Quality Assurance Cell

SECTION-B

2. Attempt any three parts of this question in 100 to 200 words.
(10×3=30)
- Explain the meaning, nature and scope of business finance.
 - How can the impact of risk and uncertainty be incorporated in capital budgeting ?
 - 'The Traditional Approach to capital structure relevance is mid-way between the NI and NOI approach'. Explain with an example.
 - What are Receivables ? What aspects should be considered in the management of Receivables ?
 - Discuss the significance of dividend policy decisions. What are the different dividend policies a company can follow ?

SECTION-C

Note :- Attempt all questions of this Section in 300-500 words.
(10×5=50)

3. 'The role of finance manager has undergone change in the changing environment offering multiple challenges.' Discuss.

OR

Discuss in detail the various long-term sources of finance.

4. What is leverage ? What are its types and their implications ? An analytical statement of XYZ company is given below :

	Rs.
Sales	9,60,000
Variable cost	5,60,000
Contribution	4,00,000
Fixed costs	2,40,000
EBIT	1,60,000
Interest	60,000
Earnings Before Tax	1,00,000
Tax	50,000
Net Income	50,000

Calculate the degree of :

- Operating Leverage
- Financial Leverage
- Combined Leverage

OR

M/s XYZ and Co. are considering the purchase of a machine. The machines X and Y costing Rs. 50,000 are available. Earnings after taxation are expected to be as under :

Year	Machine X Rs.	Machine Y Rs.	Discount Factor at 10%
1	15,000	5,000	0.9091
2	20,000	15,000	0.8264
3	25,000	20,000	0.7513
4	15,000	30,000	0.6830
5	10,000	20,000	0.6209

Evaluate and suggest which alternative is better according to :

- Pay back method
 - Accounting rate of return method
 - Net present value method.
5. 'Cost of capital is not a cost but the minimum rate of return expected by investors'. Elaborate. Why is the concept of cost of capital relevant ? What are the different types of costs ?

OR

Internal Quality Assurance Cell
Jaipuria Institute of Management
Indirapuram, Ghaziabad

In-charge
Internal Quality Assurance Cell

In considering the most desirable capital for a company, the following estimates of the cost of debt and equity capital (after tax) have been made at various levels of debt-equity mix.

Debt as % of total Capital Employed	Cost of Debt %	Cost of Equity %
0	7.0	15.0
10	7.0	15.0
20	7.0	15.5
30	7.5	16.0
40	8.0	17.0
50	8.5	19.0
60	9.5	20.0

Determine the optimal debt equity mix for the company by calculating composite cost of capital.

6. 'Investors are indifferent to the dividend policy of the firm'. Critically examine this statement in light of the M-M theory of dividend irrelevance.

OR

What do you understand by cash management ? Explain the various principles to be followed by an organisation for managing cash.

7. Write short notes on any two of the following :
- (i) Factory
 - (ii) Rights Issue
 - (iii) Risk-Return Analysis
 - (iv) Overcapitalisation and Undercapitalisation.



Tata Iron and Steel Company (Tisco)

The Company was formed in 1907 to carry on in India and elsewhere the trade or business of iron masters, steel makers, steel converters, manufacturers, miners, smelters, engineers and tinplate makers. The Company's works situated at Jamshedpur manufacture rails, fishplates, bars, light-structurals, heavy structurals, plates, black sheets, galvanised sheets, tin bars, sleeper bars, sleepers, blooms, billets, sheet bars, wheels, tyres and axles, skelp and strip and special steels, tools such as picks etc. Its total licensed capacity is 2 million tons.

Objectives

The fundamental objective of TISCO is to strengthen India's industrial base through increased productivity, effective utilization of material and manpower resources and continued application of modern scientific and managerial methods, as well as through systematic growth in keeping with national aspirations. The company recognises that, while honesty and integrity are the essential ingredients of a strong and stable enterprise, profitability provides the main spark for economic activity. The company believes in the protection and safeguarding of the shareholders' investment and ensuring to them a fair return. The policies and objectives of the company are also directed towards the effective discharge of its duties and obligations towards employees, customers and community.

Although the company's major objective is to earn higher rates of return on its investments, capital projects have been undertaken even if return on investment has been less than the cut-off rate. The guiding principle has been the optimization of the system as a whole rather than optimization of a sub-system.

Planning Horizon

The planning horizon for TISCO is five years. It has a rolling plan for its capital expenditures. In the rolling plan, the estimates of capital expenditures for the next five years are made/every year. A review of expenditure and budget shortfall/excess is made in December - January. On the basis of this information, revised estimates of expenditure are prepared for the ongoing projects.

Nature of the Capital Budget

Annual capital expenditure budget consists of two parts:

- (1) **Carryover items:** These are the projects which were started in the past years and are still continuing. The concept of rolling plan is especially applicable to these items. This is because the revision in capital expenditure is required on account of various environmental factors.
- (2) **New projects:** are important because the company makes the crucial decision of committing valuable resources at this point. It is at this point that a cost-benefit analysis is made. These projects go over to the carryover items in the succeeding

Prepared by Professor I.M. Pandey, Indian Institute of Management, Ahmedabad.

Case material of Indian Institute of Management, Ahmedabad, is prepared as a basis for class discussion. Cases are not designed to present illustrations of either correct or incorrect of administrative problems.

years.

Both for carryover and new projects on phasing of expenditure is worked out on the basis of funds availability and technical requirements.

Capital Projects

The capital expenditure projects of the company have been divided into two categories:

- (1) **Minor Schemes:** involving outlays under Rs.25 lakh. Approximately Rs. 7 crore are allocated to these schemes annually. Schemes undertaken under this heading are: new equipment and modification, prototypes, balancing facilities, replacements, system changes etc.
- (2) **Major Schemes:** involving outlays of more than Rs.25 lakh. A total of Rs. 30 to Rs.35 crore are allocated to these projects annually.

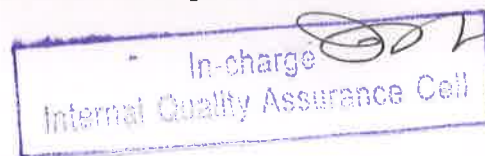
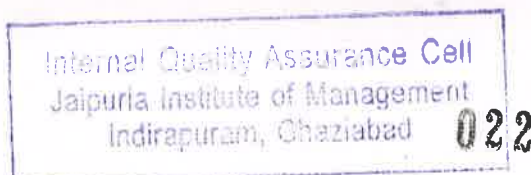
The rationale for this classification is that whereas minor schemes involve routine expenditure requiring less intensive managerial attention, major schemes deal with areas which are relatively unknown and the company's commitments are high.

Administrative Organization for Capital Budgeting

- 1) **Conception Stages:** A study by L.S. Porwal indicates that the capital expenditure practices in India are top down. The same system seems to exist in TISCO. Although there exists a 'suggestion System', it seems that suggestions are mainly with regard to plant operations. The flow of ideas with regard to capital outlays is not frequent. In the suggestion system there exist systems of cash award.

The ideas for minor schemes mainly come from departmental heads, possibly because of technical requirements. The ideas for major schemes come from the experiences of steel plants/abroad, research and development and top management.

- 2) **Formalization stage:** A lot of ideas is conceived during the conception stage; however, the concrete shape to the ideas in terms of operational details are provided at this stage. The movement of ideas to the stage of final approval is as follows:
 - (i) Departmental head submits the proposal to the Chief Engineer for his consideration. If the proposal is acceptable, it is sent to the project division.
 - (ii) Project division provides:
 - a) Estimated life of the project on the basis of the experiences of the respective department;
 - b) Essentiality of the project - here the factors which cannot be quantified are considered.
 - c) the details of the existing facilities and the description of the



- proposed projects in terms of technical details;
- d) lists out various alternatives available to achieve the objective and evaluates them;
 - e) the details of the planning of expenditure involved. It also provides information about any further expenditure required and not covered by the estimate.
 - f) an estimate of the likely date of starting the project and completion time.
 - g) an estimate of the financial benefits and the operating cost of the project. On the basis of these estimates ROI is calculated.
- (iii) Project division submits this formalised proposal to the chief engineer for his reconsideration. If found suitable, chief engineer submits the proposal to the controller of budgets.
- 3) **Coordination:** There is a special cell called C.E.D.D. (Projects Division) for formalisation of the project which takes into account the impact that a project will have on other departments. To ensure that certain facets of a certain proposal affecting other departments are not missed out, there is a periodical meeting of all the concerned officials. There is a formal system for this meeting and the maximum interval between any two such meetings is one week.
- 4) **Evaluation:** The formalized proposal is submitted to a study group for studying the viability of the project for the system as a whole. The study group consists of chief engineer, controller of budgets, controller of accounts and representatives from works. In the case the study group is satisfied, the proposal is put forward to the Capital Expenditure Control Committee. This committee selects the priority projects in view of the financial constraints spelled out by the head office.

Criteria to Assign Priority to a Project

A simple method of return on investment (book value) is used. Sometimes the payback period is also taken into account. Minimum return on investment is fixed at 15 per cent.

Apart from the monetary criteria, there are non-monetary factors which are also considered. These factors are essentiality of the project, government rates and regulations, union contractual requirements and the social objective of the company.

The company does not use the discounted cash flow techniques. The reasons for not using DCF techniques are:

- i) It is thought to be too complicated
- ii) Needs a lot of data which is not available
- iii) Most of the capital expenditures are replacement expenditures where the time tested technique of ROI is preferred

Internal Quality Assurance Cell
Jaipuria Institute of Management
Indirapuram, Ghaziabad

021

In-charge
Internal Quality Assurance Cell

- iv) There is a normal human resistance to change.

Approval and Budget Finalization Stage

All the proposals cleared by the Capital Expenditure Control Committee go into the formalised budget. The budget is prepared on an annual basis with phasing over the years. Once in three months the proposals are sent to Head Office, to be approved by the Board of Directors.

Capital Expenditure of less than Rs.1000 is approved by the department head concerned, and charged to the current year's account. Projects upto Rs.10,000 can be approved, if required, by the Vice Chairman keeping in view the urgency of it. A fixed amount of budget is given to the Vice-Chairman for such emergency sanctions. Projects involving expense of Rs.10,000 to Rs.25,00,000 (minor schemes) are sent to the board of directors for their approval. Projects involving expenditure of more than Rs.25 lakh are scrutinised at the head office and only then the approval is given. So long as the total budget for the minor schemes does not exceed the financial constraints, they are sanctioned. Since major projects involve greater commitment of the company resources, they are scrutinised in detail at the Head Office level. The normal time for proposal to be approved is approximately 10-12 months. However, in the case of urgent expenses, the controller of budgets allows the expenditure under intimation to the Head Office.

Disbursement of Sanctioned Fund

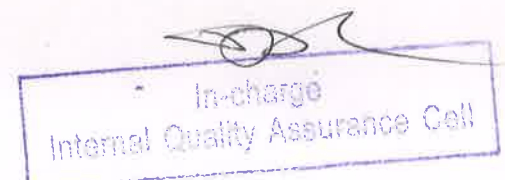
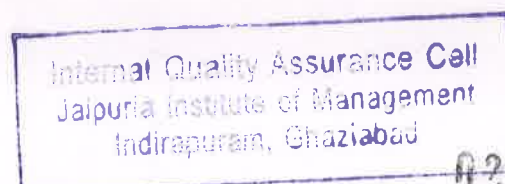
Immediately after the schemes are approved, controller of budgets is informed by telex of the approval, giving the scheme numbers. The controller of budget then disburses the funds to the concerned departments. The controller of accounts is also informed about the approval of these schemes so that the necessary funds may be released.

Control of Expenses

A check is kept on the way expenses are being incurred in different phases. If the deviations are very large, the causes for the deviations are investigated. In the case deviations exceeded 15 per cent of the original approval, a fresh revised estimate is submitted for approval, along with the reason for deviation.

Performance Appraisal

TISCO has a 'Make-Good Reports Committee' which goes into the appraisal of projects performance. A kind of ABC analysis is done to analyze the actual performance vis-a-vis the estimated performance. On a random basis, a few projects are picked up for investigations of their performance. In case the actual performance is very poor it is investigated as to whether the project itself was wrongly conceived or was it due to the wrong operating procedures. It is also investigated as to the grounds on which the project was wrongly formulated. Corrective actions are taken whenever possible otherwise the project is abandoned in the extreme cases. For example, TISCO has invested large resources in the Adityapur Complex (Jamshedpur). However, the performance has been far below the projected level for various reasons such as shortages of power, lack of infrastructure facilities etc. TISCO is now thinking in terms of reallocating the project.



SOURCE: WILEY
Cases in Financial
Management
By JOSEPH M
SHULOK
A
JOHN S DUNKEL
BERG

CASE 17

HORTON BUILDING SUPPLIES WORKING CAPITAL

Millsbaugh County is located a few miles south of Kansas City, Kansas and Kansas City, Missouri and has a population of over 175,000. Population growth has been about 2 percent annually for the last decade, but there are signs that the area will grow sharply in the next five years or so. Attracted by relatively low taxes, a skilled labor pool, and low-cost industrial sites, numerous businesses have begun to relocate to Millsbaugh and more are expected to follow.

The economy is diverse and there is no single dominant industry or employer. Roughly 70 percent of employment is in service, retail, wholesale, and financial, and the remainder is in manufacturing.

HORTON BUILDING SUPPLIES

The Kansas-Nebraska Act in 1854 opened the territories of Kansas and Nebraska to homesteaders. Thomas Horton, I, a land-owning farmer in Indiana, was aware of the opportunities being presented in these territories and moved to Millsbaugh in 1858. After the Civil War he started the Horton House, a stage-coach stop on the Santa Fe Trail. The railroad came to the area in 1871 and the Horton House ceased operations. An enterprising sort, Thomas I quickly saw that the railroad meant economic growth for the area and he established the Horton Lumber Company in 1874. The firm began as a retail lumberyard selling to townspeople and local contractors. Over time, however, it has gradually expanded into numerous other products like paint, hardware lines, and even finished and semifinished lumber items like deck flooring and fencing. In short, the company is a rather "all-purpose" building supplies company and the name was changed to Horton Building Supplies (HBS) twenty years ago to reflect this.

HBS has been continuously run by five generations of Hortons and at present nearly every important position is occupied by a family member. For example,

Internal Quality Assurance Cell
Jaipuria Institute of Management
Indirapuram, Ghaziabad

019

In-charge
Internal Quality Assurance Cell

Thomas V is president, Abigail Horton is treasurer, and Jackson Horton is director of marketing. And there is little doubt that HBS has been and is efficiently managed. Amazingly, the company has been "in the black" every year despite the fact that sales are fairly sensitive to the state of the economy and at times Millsbaugh County has experienced an unemployment rate of over 20 percent.

WORKING CAPITAL FINANCING

The company's sales are seasonal and during the colder months building activity slows down. If the winter is mild, some building projects continue, but large new projects are not usually started until early spring. The low point of the year is January, and from that time on, sales build. HBS has a small, year-round labor force and employs seasonal labor during peak business periods.

Management is well aware of the "ebb and flow" of the firm's working capital, caused by the seasonality of the business. Historically HBS has kept an unusually large amount of cash, and when receivables and inventory have increased, they have been primarily financed by drawing down the cash balance. Thus the company's cash balance is inversely related to the seasonality of the business. That is, the firm's cash position increases during off-peak months and decreases during peak times.

Management is taking a critical look at this strategy, however. Millsbaugh County is expected to grow sharply in the next three to five years and HBS wants to expand its operation. Abigail Horton realizes that such an expansion requires financing and she thinks that HBS may have difficulty in internally raising the needed funds. Her position is that the firm's traditional method of financing its seasonal working capital is "unnecessarily tying up capital" and the company's large cash balance is a "luxury that will have to stop." She argues that it is more appropriate to use short-term financing to finance the seasonal variation in receivables and inventory.


FAMILY REACTION

Thomas V thinks that this suggestion is well worth pursuing. He realizes that HBS's large cash position is tying up long-term sources of capital like equity and long-term debt. Thus, using seasonal borrowing would free up capital for the expansion.

Jackson Horton is not convinced, though, and thinks that the company's financing methods "have worked just fine." In addition, he doesn't like the idea that more debt will increase interest expense and may involve "hassling with a bank."

Jane Horton, the company's sales manager, isn't opposed to using debt to finance working capital and, in fact, would like all working capital financed with short-term borrowing. She argues that all the firm's receivables and inventory are short-term assets and thus it is appropriate to finance them using

Internal Quality Assurance Cell
Jaipuria Institute of Management
Indrapuram, Ghaziabad

In-charge 
Internal Quality Assurance Cell

a short-term debt instrument. In addition, she notes that short-term debt is usually cheaper than long-term debt.

KANSAS CITY NATIONAL BANK

Kansas City National Bank (KCNB) has dealt with HBS for nearly three decades. HBS has never established much of a relationship with the bank except for an occasional term loan, mainly because it has relied heavily on equity as a source of financing. KCNB, on the other hand, has been willing—even eager—to develop a closer relationship with HBS, in part because the bank considers HBS to be a stable and well-run company. Thus when Robert Miller, an account executive at KCNB, received a call from Thomas V he was more than willing to cooperate. Thomas V wants Miller to help analyze the working capital position of HBS and both agree that Miller's objectives are to (1) estimate the firm's temporary and permanent working capital and (2) determine if the bank is willing to extend HBS a line of credit sufficient to finance the firm's temporary working capital.

NOTE: "Working Capital" is defined here as receivables plus inventory minus accounts payable.

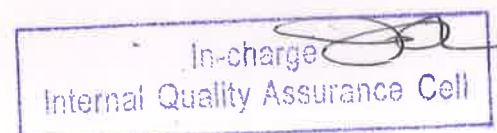
Kansas City National suggests that a company's seasonal working capital be estimated as follows. First, working capital is calculated at the "low" point of operation, which for most firms is December. This calculation gives an estimate of the firm's permanent working capital for the year. Next, working capital is computed at the company's peak time. The difference in the two working capital figures provides an estimate of the company's seasonal working capital needs for the year.

Exhibits 1 and 2 show HBS's income statements and balance sheets for the last four years. A local CPA firm, Goldsmith and Starne, has audited HBS's statements for years according to generally accepted accounting principles and has always issued unqualified opinions. Goldsmith and Starne's work is well known and respected and they perform tax preparation and audits for several of the largest locally owned businesses. Exhibits 3 and 4 show quarterly income statements and balance sheets for the most recent year. These were prepared internally by Abigail Horton, and Miller thinks that they are quite reliable except, perhaps, the inventory estimate, since HBS performs only one annual inventory audit.

Miller would prefer monthly statements but realizes that they would be difficult and time consuming to prepare.

QUESTIONS

- (a) A firm's "cash cycle" is measured by the inventory period (IP) plus the Average Collection Period (ACP) minus the Average Payment Period (APP);



where

$$IP = \text{DAYS}/(\text{CGS}/\text{inventory})$$

$$ACP = \text{DAYS}/(\text{Sales}/\text{receivables})$$

$$APP = \text{DAYS}/(\text{CGS}/\text{accounts payable})$$

where "DAYS" is the amount of time in the fiscal period: "30" for one month, "90" for one quarter, and "360" for one year.

The cash cycle for HBS was 188.7 days for the first quarter of 1995, 115.7 for the second, and 100.3 for the third. Calculate HBS's cash cycle for the fourth quarter.

(b) Explain the meaning of your estimate.

2. What is HBS's working capital in each quarter of 1995?

NOTE: "working capital" is defined here as receivables plus inventory minus accounts payable.

3. (a) Estimate the firm's seasonal working capital.
(b) Estimate its permanent working capital.
4. Which firm is more likely to have a longer cash cycle: a retailer like HBS or a firm providing a service like insurance? Explain.
5. Do you think a firm is more likely to receive a loan to cover its working capital needs if increases in working capital result from increases in receivables or increases in inventory? Explain.
6. Suppose you know that HBS's cash cycle will permanently decrease after 1995 because it will tighten its collection procedures, which will reduce its average collection period. How will this policy change affect your estimates in question 3? Explain.
7. Evaluate Jane Horton's arguments for financing all the company's working capital needs using short-term debt.
8. (a) HBS has financed seasonal changes in working capital by maintaining a large cash balance that it "taps" when working capital increases. Most financial analysts would describe this as a "conservative" method of financing seasonal working capital requirements. What are the advantages and disadvantages of such an approach?
(b) Based on financial theory and the information in the exhibits, argue for or against the following statement: "HBS is too conservative in its financing of seasonal increases in working capital and could probably reduce the level of cash it holds by at least \$250,000."
9. What is the "matching principle" of financing working capital? What are the advantages and disadvantages of using this approach?
10. How do you recommend that HBS finance its working capital? Defend your recommendation.

Internal Quality Assurance Cell
Jaipuria Institute of Management
Indrapuram, Ghaziabad

016

In-charge 
Internal Quality Assurance Cell

11. (a) Suppose that HBS asks Robert Miller to approve a short-term loan of \$450,000 to help finance seasonal increases in working capital. Based on information in the case and the exhibits and your previous answers, would you advise Miller to grant the loan? Explain.
- (b) What additional information would you like to make a more informed decision?
12. Is HBS's seasonal working capital the result of higher sales, a lengthened cash cycle, or both? Explain.
13. Why would Miller like monthly financial information instead of quarterly financial statements?

EXHIBIT 1
Income Statements of Horton Building Supplies: 1992–1995 (000s)

	1992	1993	1994	1995
Sales	\$5,795.4	\$5,749.6	\$6,961.9	\$7,981.6
CGS	<u>4,071.5</u>	<u>4,099.0</u>	<u>5,135.2</u>	<u>5,850.5</u>
Gross profit	1,724.0	1,650.6	1,826.7	2,131.1
Administrative	1,192.1	1,201.3	1,324.1	1,467.2
Lease	14	15.1	15.6	14.8
Depreciation	<u>127.5</u>	<u>126.5</u>	<u>153.2</u>	<u>175.6</u>
EBIT	390.4	307.7	333.8	473.5
Interest	<u>55.0</u>	<u>15.9</u>	<u>10.4</u>	<u>17.1</u>
EBT	335.4	291.9	323.3	456.4
Taxes	<u>134.1</u>	<u>116.8</u>	<u>129.3</u>	<u>182.6</u>
Net income	<u>\$201.2</u>	<u>\$175.1</u>	<u>\$194.0</u>	<u>\$273.8</u>

EXHIBIT 2
Balance Sheets of Horton Building Supplies: 1992–1995 (000s)

Assets	1992	1993	1994	1995
Cash	\$917.0	\$926.2	\$1,065.1	\$1,256.8
Receivables	962.9	1,082.1	1,283.8	1,338.8
Inventory	1,100.4	1,149.9	1,256.3	1,302.1
Other current	<u>34.7</u>	<u>34.4</u>	<u>41.8</u>	<u>47.9</u>
Current assets	3,015.0	3,192.6	3,647.0	3,945.6
Gross fixed assets	1,764.3	1,931.2	1,973.4	2,085.3
(Acc. depreciation)	(968.3)	(1,094.8)	(1,248.0)	(1,423.6)
Net fixed assets	<u>796.0</u>	<u>836.4</u>	<u>725.4</u>	<u>661.7</u>
Total assets	<u>\$3,811.0</u>	<u>\$4,029.0</u>	<u>\$4,372.4</u>	<u>\$4,607.3</u>

(continued)

Internal Quality Assurance Cell
 Jaipuria Institute of Management
 Indirapuram, Ghaziabad


In-charge 
 Internal Quality Assurance Cell

EXHIBIT 2
(Continued)

<i>Liabilities & equity</i>	1992	1993	1994	1995
Accounts payable	\$148.6	\$256.8	\$306.3	\$304.4
Accruals	102.7	91.7	124.7	157.7
Notes payable	0.0	0.0	0.0	0.0
LT debt due	50.0	50.0	50.0	50.0
Current liabilities	301.3	398.5	481.0	512.1
Long-term debt	208.5	154.2	221.0	151.0
Common stock	1,000.0	1,000.0	1,000.0	1,000.0
Retained earnings	<u>2,301.2</u>	<u>2,476.3</u>	<u>2,670.4</u>	<u>2,944.2</u>
Total lia. + equity	<u>\$3,811.0</u>	<u>\$4,029.0</u>	<u>\$4,372.4</u>	<u>\$4,607.3</u>

EXHIBIT 3
1995 Quarterly Income Statements of Horton Building Supplies (000s)

	3/31	6/30	9/30	12/31
Sales	\$1,119.1	\$2,530.9	\$2,787.7	\$1,543.9
CGS	<u>843.6</u>	<u>1,837.6</u>	<u>2,019.2</u>	<u>1,149.9</u>
Gross profit	275.5	693.3	768.5	394.0
Administrative	256.8	421.8	440.2	348.5
Lease	3.7	3.7	3.7	3.7
Depreciation	<u>24.6</u>	<u>55.7</u>	<u>61.3</u>	<u>34.0</u>
EBIT	(9.6)	212.1	263.3	7.8
Interest	<u>4.3</u>	<u>4.3</u>	<u>4.3</u>	<u>4.3</u>
EBT	(13.9)	207.8	259.0	3.5
Taxes	<u>(5.6)</u>	<u>83.1</u>	<u>103.6</u>	<u>1.4</u>
Net income	<u>(\$8.3)</u>	<u>\$124.7</u>	<u>\$155.4</u>	<u>(\$2.1)</u>

Internal Quality Assurance Cell
Jaipuria Institute of Management
Indirapuram, Ghaziabad


In charge 
Internal Quality Assurance Cell

EXHIBIT 4
1995 Quarterly Balance Sheets of Horton Building Supplies (000s)

Assets	3/31	6/30	9/30	12/31
Cash	\$1,210.2	\$415.3	\$820.0	\$1,256.8
Receivables	1,003.2	2,213.6	1,742.3	1,338.8
Inventory	1,610.3	1,668.9	1,467.2	1,302.1
Other current	<u>47.1</u>	<u>47.6</u>	<u>47.8</u>	<u>47.9</u>
Current assets	3,870.8	4,345.4	4,077.3	3,945.6
Gross fixed assets	1,972.7	2,030.6	2,086.2	2,085.3
(Acc. depreciation)	(1,272.6)	(1,328.3)	(1,389.6)	(1,423.6)
Net fixed assets	<u>700.1</u>	<u>702.3</u>	<u>696.6</u>	<u>661.7</u>
Total assets	<u>\$4,570.9</u>	<u>\$5,047.7</u>	<u>\$4,773.9</u>	<u>\$4,607.3</u>
<hr/>				
Liabilities & equity	3/31	6/30	9/30	12/31
Accounts payable	\$597.9	\$913.3	\$478.7	\$304.4
Accruals	110.0	146.7	152.2	157.7
Notes payable	0.0	0.0	0.0	0.0
LT debt due	<u>50.0</u>	<u>50.0</u>	<u>50.0</u>	<u>50.0</u>
Current liabilities	757.9	1,110.1	680.9	512.1
Long-term debt	151.0	151.0	151.0	151.0
Common stock	1,000.0	1,000.0	1,000.0	1,000.0
Retained earnings	<u>2,662.0</u>	<u>2,786.7</u>	<u>2,942.1</u>	<u>2,944.2</u>
Total lia. + equity	<u>\$4,570.9</u>	<u>\$5,047.7</u>	<u>\$4,773.9</u>	<u>\$4,607.3</u>

EXHIBIT 5
Selected Ratios of Horton Building Supplies

	1992	1993	1994	1995	Industry Average
Current	10.0	8.0	7.6	7.7	1.8
Quick	6.4	5.1	5.0	5.2	.9
Debt (%)	13.4	13.7	16.1	14.4	55.4
ACP (Days)	59.8	67.8	66.4	60.4	45
TAT*	1.5	1.4	1.6	1.7	2.5

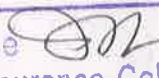
*Total Asset Turnover = Sales/TA.

Internal Quality Assurance Cell
Jaipuria Institute of Management
Indirapuram, Ghaziabad

In-charge
Internal Quality Assurance Cell

EXHIBIT 6
Normalized Balance Sheet for the Building Supplies Industry

<i>Assets</i>	
Cash	6.7
Receivables	27.2
Inventory	38.2
Other Current	<u>1.9</u>
Current assets	74.0
Net Fixed Assets	<u>26.0</u>
Total assets	<u>100.0</u>
<i>Liabilities & Equity</i>	
Accounts payable	18.5
Accruals	9.1
Long-term debt due	3.1
Notes Payable	<u>10.8</u>
Current liabilities	41.5
Long-term debt	13.9
Equity	<u>44.6</u>
Total liabilities & equity	<u>100.0</u>

In-charge 
Internal Quality Assurance Cell

Internal Quality Assurance Cell
Jaipuria Institute of Management
Indirapuram, Ghaziabad



Indian Institute of Management
Ahmedabad

IIMA/F&A0491

Revised 11 November, 2014

General Electric and GE Capital

Late in the evening on September 8, 2008 Jeff Immelt, Chairman and CEO of the giant US conglomerate General Electric (GE), picked up the phone to talk to the US Treasury Secretary, Henry Paulson. Immelt's message was very simple - GE was unable to borrow in the commercial paper market¹.

GE Capital, a wholly-owned financial services subsidiary of GE, had nearly \$92 billion of commercial paper outstanding with an average maturity of 61 days. Refinancing of this commercial paper was proving difficult in the face of the ongoing crisis in US financial markets. A week later, Immelt travelled to Washington to meet the Treasury Secretary and explain the problem. GE was unable to borrow in the commercial paper for any maturity longer than overnight².

GE Capital's problems were not limited to managing its liquidity needs in a difficult market environment. Investors were concerned about the soundness of GE Capital's loan and investment portfolio. The AAA credit rating of GE and GE Capital was probably at risk. There were widespread concerns about GE Capital's viability in the uncharacteristic market conditions. The market was rife with rumours about the magnitude of GE Capital's woes. The Chairman of Standard Chartered Bank asked Paulson whether GE was failing adding that "What we hear is not good."³ When the Board of Directors of Morgan Stanley called in a consultant to plan their own survival strategies, the consultant told them: "If we go, Goldman goes, and then GE will go⁴."

Profile of GE & GE Capital

GE had revenues over \$170 billion and ranked sixth in the 2007 'Fortune 500' list. GE had operations in more than 100 countries. It had diversified interests in manufacturing and services and the latter accounted for more than 60 per cent of its revenue in 2007. The major divisions of GE and their share of consolidated revenues⁵ were: GE Capital (37%), Technology Infrastructure (25%), Energy Infrastructure (21%), NBC Universal (11%), and

¹ Henry M. Paulson (2010) *On the Brink: Inside the Race to Stop the Collapse of the Global Financial System*, Hachette Book, New York, page 173.

² Henry M. Paulson, page 228

³ Henry M. Paulson, page 344

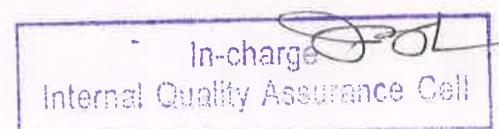
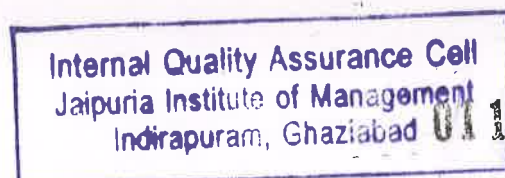
⁴ Andrew Ross Sorkin, (2009) *Too big to fail; The inside story of how Wall Street and Washington fought to save the financial system - and themselves*, Viking, Penguin, New York, page 463-464.

⁵ The revenue shares given are for the third quarter of 2008.

Prepared by Professors Jayanth R Varma and Joshy Jacob, Indian Institute of Management, Ahmedabad. This case is based on publicly available information solely.

Cases of the Indian Institute of Management, Ahmedabad, are prepared as a basis for class discussion. They are not designed to present illustrations of either correct or incorrect handling of administrative problems.

© 2011 by the Indian Institute of Management, Ahmedabad.



The Commercial Lending and Leasing division of GE Capital offered loans, leases, and other financial services in 35 countries to business customers, including manufacturers, distributors, and end-users for a variety of equipments and capital assets. These equipments and assets included, industrial facilities, aircrafts, commercial and residential real estate, and vehicles. The commercial portfolio had a maximum single industry concentration of six per cent, excluding commercial aircrafts and real estate financing.

The GE Money division of GE Capital was a service that especially targeted the financing requirements of individuals and small businesses. Its services included, credit cards, personal loans, auto loans, mortgages, home equity loans, small and medium enterprise lending, and credit insurance. A significant part of the consumer portfolio comprised credit card debt, auto loans, personal loans, and mortgages over 56 million accounts. More than 30 per cent of the consumer portfolio comprised mortgages and more than 10 per cent was accounted by credit card loans. The consumer portfolio of GE money was more evenly spread across different geographies compared to that of Commercial Lending and Leasing which had about 70 per cent of its portfolio outside US.

The Real Estate division included a real estate investment portfolio and the real estate lending portfolio. The financing activities of real estate division included equity capital for acquisition or development, fixed or floating rate mortgages for new acquisitions or re-capitalizations of commercial real estate. Nearly 70 per cent of the real estate investment portfolio was held outside US, primarily in Europe, across a variety of assets; office space, warehouses and multi-family houses. Nearly 50 per cent of the equity investments in commercial real estate comprised office space. The average loan-to-value ratio of the mortgage portfolio was about 74 per cent.

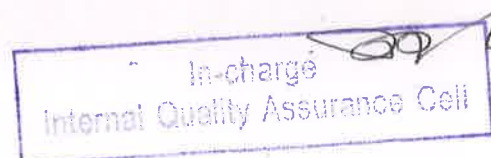
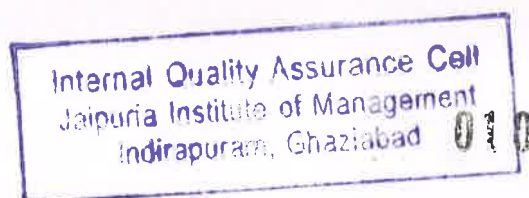
Overall, GE Capital's lending portfolio represented about 60 per cent commercial and 40 per cent consumer assets, with about 50 per cent of the portfolio contributed by non-US assets. Exposure to the developing markets was about 10 per cent. The break-up of GE Capital's asset portfolio and the contribution of its different divisions to revenues and net earnings are given in Exhibit 7.

GE Capital faced competition from the entire range of financial institutions, including commercial banks, investment banks, consumer loan companies, leasing services, and broker-dealers. The competition was mostly in terms of interest-rate and fees, and the structure and terms of lending. Profitability was majorly affected by broad economic conditions that influenced customer credit quality and cost of capital. Business success depended greatly on managing credit risk, interest-rate risk, foreign exchange risk, and the market risk.

The Global Financial Crisis

Since the middle of 2007, a financial crisis had been building up in the US and elsewhere in the world. What had begun as a problem with sub-prime securities (securities based on low quality residential mortgages) in the US had developed into something much more virulent. As banks suffered losses from writedowns of bad assets throughout 2007 and early 2008, investors became concerned about the solvency of the banks and financial institutions most exposed to a variety of troubled assets.

In March 2008, a large second-tier investment bank, Bear Stearns, collapsed after it was unable to roll over the short-term borrowings from lenders concerned about its solvency. It was bought at a notional price by one of the top US banks, JP Morgan Chase, in a deal that was facilitated by the US government and the Federal Reserve Board.



GE Capital had been borrowing without any significant explicit guarantee from GE itself⁷. The strength of GE's diversified industrial business was a significant source of comfort to investors in the bonds and commercial paper of GE Capital.

During the third quarter of 2008, as some large banks failed and many others seemed to be tottering, lenders were increasingly concerned about the solvency of GE Capital. The concern emerged from two sources – doubts about GE Capital's asset quality and its level of tangible equity capital⁸.

Asset quality concerns were related to the following:

- About a one-third of the investment securities of GE Capital belonged to categories which were regarded as troubled assets in the market (details of GE Capital's investments are given in Exhibit 11).
- GE Money, the second largest segment of GE Capital, had significant exposure to residential mortgages in UK and Eastern Europe. The UK mortgage situation was as bad as that in the US and several UK banks had failed or been forced to raise new equity. In Eastern Europe, the problem was that many home owners had borrowed in euros or Swiss francs in the belief that their countries were likely to adopt the euro very soon. During the crisis, however, the hopes of adopting the euro had receded, currencies had devalued and some economies were on the verge of severe recession (details of the financing receivables of GE Capital are provided in Exhibit 12).
- GE Capital had a large position in commercial real estate and nearly half of this was equity investments.

An estimate by the IMF on the default cycle of a variety of US loans suggested that charge off rates on residential mortgages, which were already at historic highs, would climb further. It also suggested that consumer loan losses could exceed record levels and corporate and commercial real estate loans could reach multi-year highs. Under a more stressed economic scenario, IMF predicted that charge-off rates on commercial real estate and corporate loans could climb close to historical peaks (see Exhibit 13)⁹.

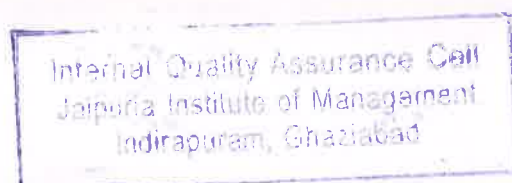
The industrial and equipment loan portfolio of GE Capital was perceived to be less vulnerable but modest losses were inevitable in the event of a severe and protracted recession.

The solvency concerns also came from the large amount of goodwill and other intangible assets on the balance sheet of GE Capital. Of the nearly \$30 billion goodwill and intangible assets of GE Capital, about one-third was associated with its consumer division, GE Money. A comparison of the equity capital, total assets, and goodwill and intangible assets of the major US financial firms is given in Exhibit 14.

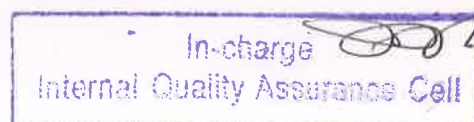
⁷ GE Capital's ratings were supported contractually by a GE's commitment to maintain the ratio of earnings to fixed charges. For instance, in 2007 GE had committed to contribute capital if GE Capital's ratio of earnings to fixed charges, which was 1.56:1 at the end of 2007, were to deteriorate to 1.10:1. Source: 2007 Annual Report of GE.

⁸ Tangible equity capital is estimated as total equity net of intangible assets, goodwill and preferred equity.

⁹ Source: Global Financial Stability Report, October 2008, Page10.



009



holding company status allowed GE Capital to carry out a range of financial service activities without being subjected to stringent regulations.

The financial crisis had blurred the lines between banks and non-banks. The US banking authorities had provided financial assistance to systemically-important non-banks. After the closure of Bear Stearns and Lehman, the remaining investment banks had chosen to convert themselves into bank-holding companies to become eligible for the financial support provided by the banking regulators. The US securities regulator (SEC) which earlier regulated these entities had withdrawn its regulatory scheme entirely so that in future an investment bank would not have the choice of being regulated by the SEC instead of the banking regulators.

Valuation Concerns

Jeff Immelt was conscious of the steep fall in GE's share price in the past weeks and months. The closing price of \$23.91 on September 30, 2008 was only a little more than half the price on the same day of the previous year which was a decline of 48 per cent compared to 29 per cent of the S&P 500 index over the same period. In fact, the decline of GE's stock price mirrored the 47 per cent decline of the S&P 500 Financials Index¹¹. GE probably was being regarded as a financial stock and was being dragged down by the performance of GE Capital (cumulative returns on S&P 500, S&P 500 Financials index, and GE are in Exhibit 15, cumulative returns on GE and comparables firms in Exhibit 16). GE had been repurchasing shares from the market under a \$15 billion buyback programme established in December 2007. The average price at which it had bought back shares in September was \$27.13¹². GE had paid dividends every quarter during the past 100 years and had boosted dividend every year during the past 32 years.

GE Capital had recorded revenue growth of 12 per cent and earnings growth of 14 per cent during the 1993-2007 period. These growth rates were several times compared to the US GDP growth rate. However, the growth had started to decline from the first quarter of 2008. For the first quarter, GE had given earnings guidance of 50- 53 cents per share. But it ended up with 44 cents. Again, during the third quarter, the company announced the earnings would be 43- 48 cents, instead of the guidance of 50-54 cents.

Analysts worried that the past profitability of GE Capital was a function of its high level of leverage and low cost of funds, made possible by the AAA rating. Moreover, by using securitization in the past, GE Capital could move assets off its balance sheet while benefiting from the profits earned by originating these assets. All these aspects of its business model possibly were under threat.

GE itself recognized that the growth was no longer sustainable. In September, Jeff Immelt promised "to take action to have a smaller more focused financial services business." But the downsizing that they had in mind was quite modest: "...[O]verall we're going to shrink the portfolio and change the mix. It's not going to be dramatic in terms of asset size. Basically

¹¹ The S&P 500 Financial index declined from 475.07 on October 3, 2007 to 254.07 on October 3, 2008, while the S&P 500 index declined from 1539.59 to 1099.23 over the same period.

¹² To a question whether any new equity is needed during a conference call on September 25, 2008, Immelt had responded "we just don't see it right now...[W]e feel very secure about how the funding looks and strength of the company and the strength of the balance sheet..."

Exhibit 1: Income Statement: GE and Consolidated Affiliates

(figures in \$ billions; per share amounts)

	3-months ended on (unaudited)			12-months ended on	
	30-Sep-08	30-Jun-08	31-Mar-08	31-Dec-07	31-Dec-07
Revenues	17.92	17.39	14.78	60.67	60.67
Expenses	11.24	10.71	9.54	38.86	38.86
Other	0.54	0.57	0.58	3.02	3.02
Revenues from services	17.53	18.22	17.38	70.19	70.19
Commercial paper interest rate swap adjustment	0.00	0.00	0.00	0.00	0.00
Other	47.23	46.89	42.27	172.74	172.74
Revenues sold	14.18	13.89	11.91	47.31	47.31
Expenses sold	7.95	6.84	6.09	25.82	25.82
Other financial charges	6.96	6.63	6.53	23.79	23.79
Contracts, insurance losses & insurance annuity benefits	0.79	0.82	0.80	3.47	3.47
Losses on financing receivables	1.64	1.49	1.36	4.55	4.55
Other	10.54	10.60	10.24	40.30	40.30
Net income in net earnings of consolidated affiliates	0.16	0.18	0.16	0.92	0.92
Other	42.22	40.45	37.08	146.14	146.14
Income from continuing operations before taxes	5.02	6.44	5.19	26.60	26.60
Income taxes	(0.54)	(1.04)	(0.83)	(4.13)	(4.13)
Income from continuing operations	4.48	5.39	4.36	22.47	22.47
(Loss) - discontinued operations	(0.17)	(0.32)	(0.06)	(0.26)	(0.26)
Income from continuing operations	4.31	5.07	4.30	22.21	22.21
Income from continuing operations	0.45	0.54	0.44	2.21	2.21
Net earnings	0.43	0.51	0.43	2.18	2.18
	0.31	0.31	0.31	1.15	1.15

and 10-Q filings of GE of the relevant years available from the website of GE <http://www.ge.com/investors/financial_reporting/sec_filing>

In-charge
Internal Quality Assurance Cell

Internal Quality Assurance Cell
Jaipuria Institute of Management
Indirapuram, Ghaziabad

Only for limited

Exhibit 3: Income Statement: GE Capital (figures in \$ billions)

	3-months ended on (unaudited)			12-months ended on	
	30-Sep-08	30-Jun-08	31-Mar-08	31-Dec-07	31-Dec-07
	0.58	0.53	0.37	0.72	
services:	17.85	18.56	17.72	71.47	
loans	7.20	6.78	6.54	23.82	
leased to others	3.97	3.91	3.81	15.26	
	1.99	1.45	1.37	6.53	
income	0.60	1.06	0.90	4.72	
leases	1.11	1.19	1.16	4.70	
investments	0.80	1.14	1.16	4.67	
earned by insurance activities	0.55	0.57	0.54	2.23	
companies	0.56	0.65	0.47	2.17	
ritization gains	0.27	0.27	0.33	1.80	
	0.81	1.55	1.44	5.30	
interest rate swap adjustment	-	-	-	-	
	18.43	19.08	18.08	72.19	
old	0.49	0.46	0.32	0.63	
er financial charges	6.72	6.35	6.18	22.73	
racts, insurance losses & insurance benefits	0.84	0.87	0.85	3.65	
ses on financing receivables	1.64	1.49	1.36	4.55	
expenses	7.09	7.02	6.81	26.66	
in net earnings of consolidated affiliates	0.10	0.06	0.03	0.21	
expenses	16.88	16.25	15.55	58.42	
ontinuing operations before taxes	1.55	2.84	2.54	13.76	
ome taxes	0.46	(0.06)	(0.07)	(1.34)	
ontinuing operations	2.01	2.77	2.47	12.43	
ss) - discontinued operations	(0.17)	(0.34)	(0.07)	(2.13)	
	1.84	2.44	2.40	10.30	

10-Q filings of the relevant years available from the website of GE <http://www.ge.com/investors/financial_reporting/sec_filings/index.h

In-charge
Internal Quality Assurance Cell

Internal Quality Assurance Cell
Jaipuria Institute of Management
Indrapuram, Ghaziabad

Exhibit 5: Balance Sheet of Representative US and European Financial Institutions

(% of total assets, as of December 31, 2006)

	US Commercial Banks	US Investment Banks	US Retail-Oriented Banks	European Banks
Financial assets				
Securities				
Debt securities	21.82	27.85	14.96	15.71
Shares	6.73	7.5	0.64	6.55
Derivatives (trading)	2.67	5.28	1.19	14.71
Loans				
Corporate/consumer	10.11	5.63	23	23.77
Short-term (fixed rate)<1 yr.	4.72	2.82	6.84	11.88
Medium-term (>1 yr. & <5 yr.)	3.66	2.82	10.97	3.57
Long-term (>5 year)	1.73	NA	5.19	8.32
Mortgages	16.51	NA	37.44	6.54
Other assets	28.6	43.27	17.34	20.93
Financial liabilities				
Debt securities/equity (trading)	4.68	8.68	0.01	12.77
Derivatives (trading)	3.2	5.49	0.96	15.34
Short & long-term liabilities/bonds	18.25	27.21	19.56	10.35
Other liabilities	65.26	51.52	69.72	56.23
Of which: deposits and interbank borrowing	42.44	3.72	60.12	24.88
Net equity ¹	7.65	3.71	9.75	2.86

Note: Columns may not add to 100 percent as some balance sheet items are not displayed in the table. ¹Net equity in percentage of total (non-risk-weighted) assets.

Source: Table 3.1, Chapter 3, Global Financial Stability Report, IMF, October 2008

Exhibit 6: Geographic Break-up of the Revenues of GE Capital

(figures in \$ billions)

	2008	2007	2006
US	33.5	35.5	33.8
Europe	21.2	20.0	15.4
Pacific Basin	10.0	10.0	7.3
Americas	5.2	4.7	3.8
Middle East and Africa	0.4	0.3	0.2
Other Global	1.0	1.4	0.9
Total	71.3	71.9	61.4

Source: 10-K filing of GE for the year 2008 available from the website of GE
http://www.ge.com/investors/financial_reporting/sec_filings/index.html

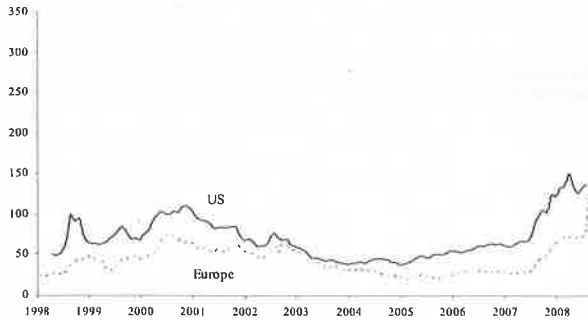
[Handwritten Signature]
 In-charge
 Internal Quality Assurance Cell

Internal Quality Assurance Cell
 Jaipuria Institute of Management
 Indrapuram, Gurgaon

Exhibit 8: Trends of Credit Spreads – US & Europe

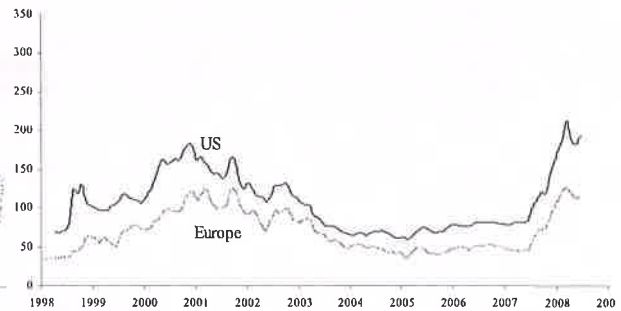
(figures in basis points)

AA – Spread: US & Europe



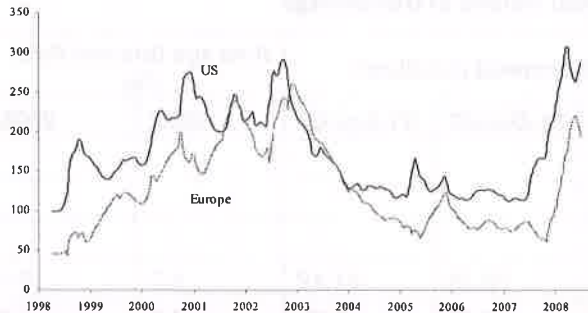
Note: Spreads for non-financial firms.
Source: Statistical Appendix, Global Financial Stability Report, October 2008, Figure 5.

A – Spread: US & Europe



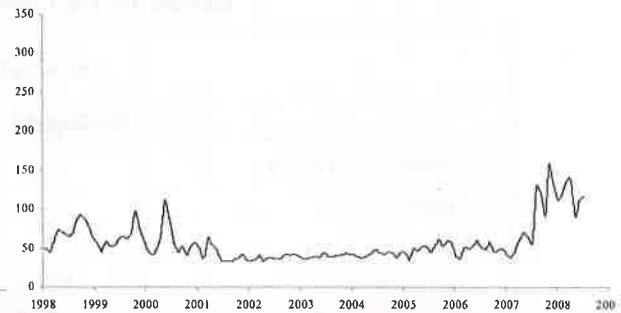
Note: Spreads for non-financial firms.
Source: Statistical Appendix, Global Financial Stability Report, October 2008, Figure 5.

BBB – Spread: US & Europe



Note: Spreads for non-financial firms.
Source: Statistical Appendix, Global Financial Stability Report, October 2008, Figure 5.

Commercial Paper Spread: US



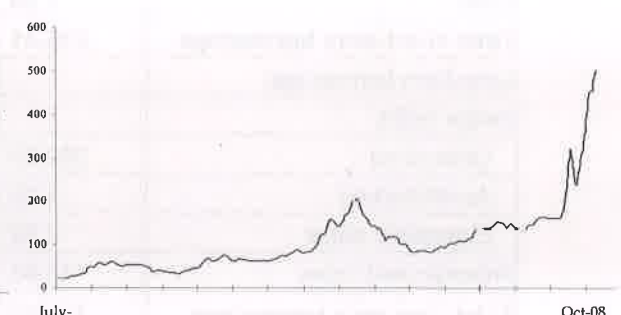
Note: Spread between yields on 90-day investment-grade commercial paper and on three-month U.S. treasury bill.
Source: Statistical Appendix, Global Financial Stability Report, October 2008, Figure 4.

Asset-Backed Spread: US



Note: Spreads for non-financial firms.
Source: Statistical Appendix, Global Financial Stability Report, October 2008, Figure 14.

CDS Spreads for High Grade US Financials



Source: Global Financial Stability Report Market Update, IMF, January 28, 2009, Figure 1.2.

Note: Aaa and Baa ratings of Moody's correspond to AAA and BBB ratings of Standard & Poor.

Internal Quality Assurance Cell
 Jaipuria Institute of Management
 Indirapuram, Ghaziabad
 004

In-charge
 Internal Quality Assurance Cell

Exhibit 11: GE Capital: Details of Investment Securities

(figures in \$ billions)

Investment Securities	Amortized cost		Unrealized Gains		Unrealized Losses		Estimated Fair Value	
	2007	2006	2007	2006	2007	2006	2007	2006
Debt:								
US corporate	21.90	21.10	0.725	1.039	(0.669)	(0.202)	21.95	21.93
State and municipal	1.11	0.83	0.028	0.038	(0.008)	(0.004)	1.13	0.86
Residential mortgage-backed	5.68	6.48	0.022	0.018	(0.225)	(0.021)	5.47	6.47
Commercial mortgage-backed	2.93	2.32	0.015	0.018	(0.049)	(0.025)	2.90	2.32
Asset-backed	2.31	2.07	0.003	0.005	(0.089)	(0.011)	2.22	2.07
Corporate non-US	1.49	1.66	0.047	0.092	(0.011)	(0.005)	1.53	1.75
Government non-US	1.08	1.30	0.070	0.105	(0.010)	(0.003)	1.14	1.40
US government and federal	0.83	0.84	0.055	0.047	(0.037)	(0.006)	0.85	0.88
Retained interests	5.58	3.79	0.178	0.434	(0.057)	(0.013)	5.70	4.22
Equity:								
Available-for-sale	1.52	4.45	0.265	1.060	(0.120)	(0.014)	1.67	5.49
Trading	0.39	0.05					0.39	0.05
Total	44.81	44.89	1.408	2.856	(1.275)	(0.304)	44.94	47.44

Notes: Of the investment securities of \$43.19 billion as of September 30, 2008, the level 1, 2, and 3 assets (corresponding to increasing degrees of valuation uncertainty) were \$1.4 billion, \$29.4 billion, and \$12.8 billion respectively.

Source: 10-K filings of GE Capital available from the website of GE
http://www.ge.com/investors/financial_reporting/sec_filings/index.html

In-charge
 Internal Quality Assurance Cell

Internal Quality Assurance Cell
 Jaipuria Institute of Management
 Indrapuram, Ghaziabad

Exhibit 13: Estimates of Financial Sector Potential Writedowns and Losses
(figures in \$ billions)

Base Case Estimates of Writedowns on U.S. Loans			
	Outstandings	Estimated losses	Percentage losses
Subprime	300	50	16.7
Alt-A	600	35	5.8
Prime	3,800	85	2.2
Commercial real estate	2,400	90	3.8
Consumer loans	1,400	45	3.2
Corporate loans	3,700	110	3.0
Leveraged loans	170	10	5.9
Total for loans	12,370	425	3.4
Base Case Estimates of Mark-to-Market Losses on Related Securities			
	Outstandings	Estimated losses	Percentage losses
ABS	1,100	210	19.1
ABS CDOs	400	290	72.5
Prime MBS	3,800	80	2.1
CMBS	940	160	17.0
Consumer ABS	650	0	0.0
High-grade corporate debt	3,000	130	4.3
High-yield corporate debt	600	80	13.3
CLOs	350	30	8.6
Total for securities	10,840	980	9.0
Total for loans and securities	23,210	1,405	6.1

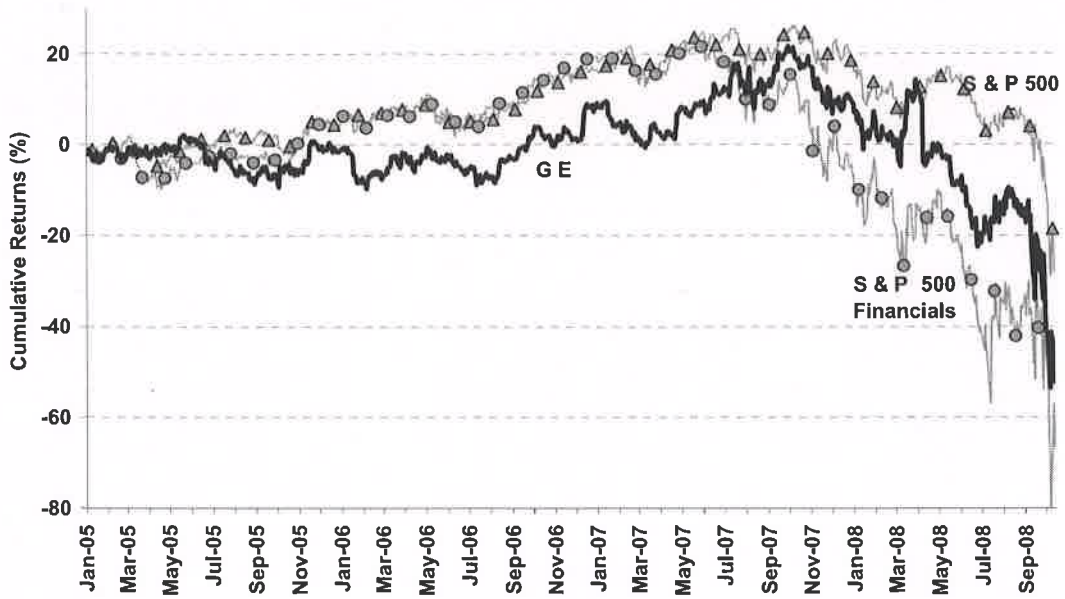
Notes: ABS – asset backed security; CDO - collateralized debt obligation; CLO = collateralized loan obligation; GSE = government-sponsored enterprise; CMBS = commercial mortgage-backed security; MBS = mortgage-backed security.

Source: Table 1.1, IMF, Global Financial Stability Report, October 2008..

In-charge
Internal Quality Assurance Cell

Internal Quality Assurance Cell
Jaipuria Institute of Management
Indrapuram, Ghaziabad

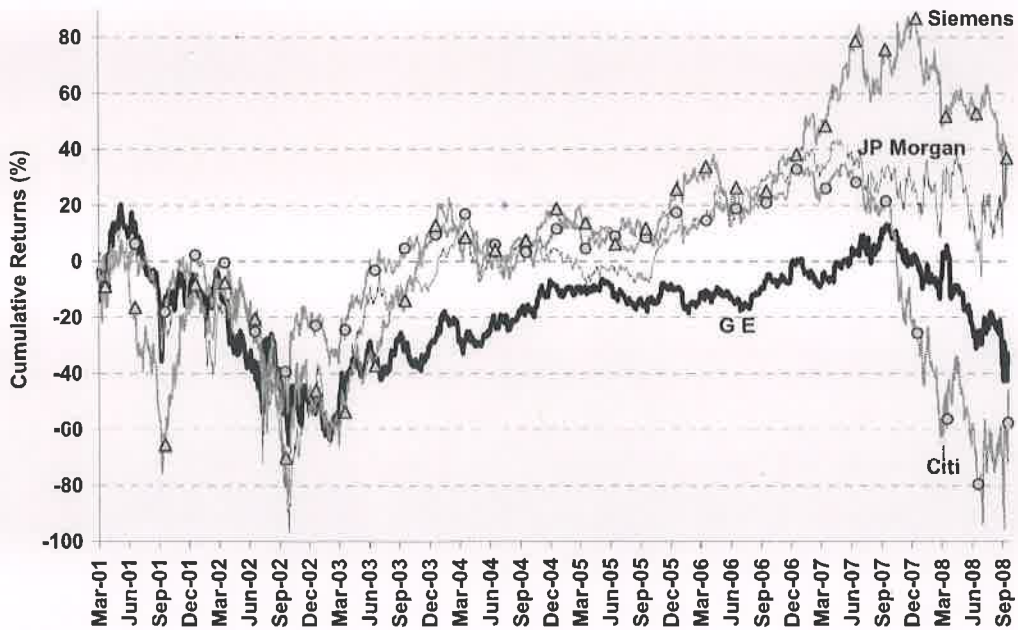
Exhibit 15: Cumulative Returns on GE, S&P 500, and S&P 500 Financials



Notes: The returns are computed based on the daily closing values.

Source: The data is sourced from Yahoo Finance <<http://finance.yahoo.com>> and Google Finance websites <<http://www.google.com/finance>> downloaded on June 1, 2009.

Exhibit 16: Cumulative Returns on GE and Comparable firms



Notes: The returns are computed from adjusted closing prices.

Source: Data are taken from Yahoo Finance website <<http://finance.yahoo.com>> downloaded on June 1, 2009

Internal Quality Assurance Cell
Jaipuria Institute of Management
Indrapuram, Ghaziabad

001

In-charge
Internal Quality Assurance Cell