JAIPURIA
INSTITUTE OF MANAGEMENT
LUCKNOW NOIDA JAIPUR INDORE

JAIPURIA INSTITUTE OF MANAGEMENT, Noida

PGDM/SM/M

FOURTH TRIMESTER (Batch 2016-18)

END TERM EXAMINATIONS (September, 2017)

SET NO.: 1

Course Name	Financial Management-II (FM-II)	Course Code	FIN404
Max. Time	2 hours	Max. Marks	40

Instructions: Attempt all the questions.

1a) Assume that all of the debt on your books was borrowed three years ago, when the treasury bond rate was 7% and you were borrowing at 7.5%. If the treasury bond rate today is 6%, and you are a riskier firm than you used to be, will the market value of your debt be greater than or less than your book value? Explain. **(5 marks)**

1b) Firm has an average collection period of 10 days. The industry average ACP is 25 days. Is this a good or poor sign about the management of the firm's accounts receivable? **(5 marks)**

2) You are considering an investment in Roxie's Bed & Breakfast, Corp. During the last year the firm's income statement listed addition to retained earnings = $4.8 million and common stock dividends = $2.2 million. Roxie's year-end balance sheet shows common stockholders' equity = $35 million with 10 million shares of common stock outstanding. The common stock's market price per share = $9.00. What is Roxie's Bed & Breakfast's book value per share and earnings per share? Calculate the market-to-book ratio and PE ratio. **(10 marks)**

3. The following are statistics from the annual report of ABC Bank: **(10 marks)**

	2015	2014	2013
Average earning assets	55,600,000	49,000,000	45,000,000
Average total assets	60,123,229	57,416,867	51,000,000
Income before securities transactions	480,000	423,000	410,000
Interest margin	2,950,000	2,400,000	2,020000
Pretax income before securities transactions	492,000	480,500	470,000
Provision for loan losses	185,000	165,000	145,000
Net charge-offs	180,000	163,000	159,000
Average equity	4,227,600	3,024,000	3,000,000
Average net loans	38,500,000	29,000,000	24,500,000
Average deposits	55,500,000	46,500,000	39,857,000

Perform financial analysis of the bank using relevant ratios. Comment on the trend observed in the ratios.

4. Bigbie Corp issued a four-year bond a year ago with a coupon of 8 percent. The bond pays interest semiannually. If the yield to maturity on this bond is 9 percent, what is the price of the bond? **(5 marks)**

5. Merriweather Manufacturing Company has been growing at a rate of 6 percent for the past two years, and the CEO expects the company to continue to grow at this rate for the next several years. The company paid a dividend of $1.20 last year. If your required rate of return was 14 percent, what is the maximum price that you would be willing to pay for this company's stock? **(5 marks)**