Registration No :

Total Number of Pages : 02 **MBA**

18MBA201

2nd Semester Regular Examination 2018-19

CORPORATE FINANCE

BRANCH : MBA

Max Marks : 100

Time : 3 Hours

Q.CODE : F978

Answer Question No.1 (Part-1) which is compulsory, any EIGHT from Part-II and any TWO from Part-III.

The figures in the right hand margin indicate marks.

Part- I

Q1 Only Short Answer Type Questions (Answer All-10) **(2 x 10)**

a) Deduce the formula for future value of a single payment today.

b) Mention any four sources of short-term financing.

c) Distinguish between systematic risk and unsystematic risk with example.

d) Name the projects where profit earning is not the sole motto.

e) Suppose a listed company doesn't declare dividend for three consecutive years, will it have a negative impact on its share price in the stock exchange? Justify your answer.

f) Explain the concept of opportunity cost.

g) The market price of an equity share is Rs 160. The dividend expected after a year is Rs 12 per share. The dividend is expected to grow at a constant rate of 4% p.a. What is the rate of return for the shareholder?

h) Distinguish between Stock dividend and cash dividend.

i) Compute the EOQ if the requirement of inventory is 1,200 units, Ordering cost is Rs 50 and Carrying cost per unit is Rs 3.

j) Describe the Working Capital Cycle.

Part- II

Q2 Only Focused-Short Answer Type Questions- (Answer Any Eight out of Twelve) **(6 x 8)**

a) Discuss six important principles of financial decision making.

b) Explain how wealth maximization is a superior goal to profit maximization?

c) Distinguish between financial leverage and operating leverage.

d) Explain the factors influencing the determination of the capital structure of a company.

e) Sales of a company is Rs 10,00,000 , Variable cost and Fixed cost are Rs 4,00,00 each. The company has issued debentures worth Rs 10,00,000 carrying 10 % rate of interest. If the sales increase by 10 % what will be the percentage increase in EBT as a result of combined leverage?

f) What is ABC Analysis? Explain the benefits of this analysis.

g) Explain the meaning of Receivables. Discuss the risk associated with it.

h) Discuss the three important motives of holding cash by a company.

i) Explain the relevant concept of dividend policy.

j) A company has the following capital structure.
40,000 Equity shares of Rs 20 each, 10% Preference shares valued Rs 2,00,000 , 12 % Debentures worth Rs 2,00,000.The equity shares are traded @ Rs 25 per share . The company expects to pay Rs 2 per share as dividend for the next year. It has a constant growth rate of 5 %. Assume 50% of tax rate. Compute WACC.

k) Discuss the factors influencing working capital requirement.

l) Explain the importance of adequate working capital.

Part-III

Only Long Answer Type Questions (Answer Any Two out of Four)

Q3 Sheetal Ltd. Is considering two different investment proposals. The details are as under : **(16)**

	Proposal A	Proposal B
Investment cost	9,500	20,000
Net cash inflow Year 1	4,000	8,000
Year 2	4,000	8,000
Year 3	4,500	12,000

a) Suggest the most attractive proposal on the basis of excess present value method considering future incomes are discounted at 12 %.

b) Find out the internal rate of return of the two proposals .

Q4 The sales revenue of Bombay Zintex Ltd. Is Rs 20,00,000 (@ Rs 20 p.u.) and the contribution is Rs 10,00,000 . At the present level of operations the operating leverage is 2.5. The company does not have any preference shares except 1,00,000 Equity shares of Rs 10 fully paid up . The income tax rate is 50 %. The rate of interest on debt capital is 16 % p.a. **(16)**

Find out :

a) The EPS at sales of Rs 20,00,000 .

b) The amount of debt capital if 25 % decline will wipe out the EPS.

Q5 Sashi Ltd. Manufactures product X and a proforma cost sheet p.u. is given as under : **(16)**

Raw materials Rs 160

Direct Labour Rs 60

Overheads Rs 120

Profit Rs 60

Sales Price Rs 400

Additional Information :

a) Raw materials are in stock on average for one month.

b) Work-in-progress on average of half a month.

c) Finished goods are in stock on average of one month.

d) Credit allowed by suppliers is one month and that allowed to customers is two months.

e) Lag in payment in wages is 1.5 weeks and in payment of overhead is one month

f) One fourth of output is sold against cash

g) Cash in hand is estimated to be Rs 50,000

Assuming a level of activity producing 52,000 units, prepare an

Q6 **Answer the following :**

a) Describe in detail the four most important decisions taken by a finance manager while discharging the finance functions. **(8)**

b) Discuss the sources of long- term finance for a company. **(8)**

Registration No :

Total Number of Pages : 03 **MBA**

15MNG203

2^{nd} Semester Regular / Back Examination 2017-18

FINANCIAL MANAGEMENT

BRANCH : MBA

Time : 3 Hours

Max Marks : 100

Q.CODE : C714

Answer Question No.1 and 2 which are compulsory and any four from the rest.

The figures in the right hand margin indicate marks.

Answer all parts of a question at a place.

Q1 Answer the following questions briefly : **(2 x 10)**

a) Under which capital structure theories the share holders value maximization concept holds good ?

b) What do you mean by Discounted Payback period? How is it different from Pay Back Period?

c) State the residual reserve criterion of Bonus share issue. What is the mathematical equation to derive the bonus ratio?

d) What do you mean by Credit standard and credit terms?

e) The annual requirement of inventory of a firm is 2700 units. If the ordering cost is Rs 50 and Carrying cost per unit is Rs 3, compute the EOQ.

f) Explain stock split and reverse split with example.

g) What do you mean by matching policy of the working capital financing?

h) How do you compute the cost of redeemable preference share?

i) What is IRR method of evaluating investment decisions? Mention the acceptance rules under this method.

j) What is meant by Trading on Equity ?

Q2 Fill in the gaps with appropriate answer : **(2 x 10)**

a) The discount rate that equates the present values of the investment's cash inflows and cash outflows is known as ----------------- (NPV, IRR, PI,ARR)

b) The remaining reserves after amount capitalised for bonus issue should be at least ------------% of the increased paid up capital.(20%,30%,40%,50%)

c) When the firm finances its permanent assets and part of temporary current assets with long term financing the working capital approach is ------------------ approach. (Matching, aggressive, conservative, constant)

d) The percentage change in EBIT to a given percentage change in sales is known as Degree of -------------------(Operating leverage, financial leverage, combined leverage, debt leverage)

e) The dividend irrelevance theory that under a perfect market situation the dividend policy does not affect the value of the firm was propagated by------------------. (Walter, Gordon,Miller-Modigliani,)

f) The Baumol's model of cash management provides a formal approach for determining the firm's optimum cash balance under-----------------. (Uncertainty, Certainty, all circumstances)

g) While calculating EOQ, the expenses related to godown rent and electricity come under-----------------. (Inventory cost, Carrying cost, Ordering cost, godown cost)

h) The Degree of Operating Leverage of a firm is ---------------when Total Sales is Rs 5,00,000, Variable cost is Rs 3,00,000 and Fixed cost is Rs 1,00,000. (2 , 3 , 4 , 5)

i) A company decides to sell a 7 year 16% Debenture of 100 each at par. The cost of Debt (Kd) is--------------(7%, 2.3%, 16%, 6.25%)

j) The present value of Rs 800 received after 15 years at discount rate of 5% when PVIF(15, 0.05)= 0.481 (Rs600, Rs384.80, Rs 120, Rs 367.40)

Q3 The statement of cost of Ambani Refractories Ltd. Is given hereunder. The current level of production is 10,000 units. Estimate the working capital requirement. **(15)**

Raw Material per unit	Rs.30
Direct wages per unit	Rs.20
Overheads per unit	Rs.25
Total cost	Rs.75
Profit	Rs.15
Selling price per unit	Rs.90

The time lags of different components of operating cycle are as under:

1) Time lag for raw material in stock is one month
2) Time lag for raw material in process is two months
3) Time lag for stock of finished goods is one month
4) Credit allowed to debtors two months
5) Credit allowed by creditors one month
6) Deferral period of wages half month
7) Deferral period of overheads one month
8) Estimated Cash requirement for working capital Rs.50,000.

Q4. Discuss the theory of relevance of capital structure under Net Income (NI) approach. Compare and contrast this view with Net Operating Income (NOI) approach. Illustrate your answer with hypothetical examples with different degrees of leverage. **(15)**

Q5 The financial manager of Trivago company has to advise the Board of Directors on choosing between two alternative project proposals Project A and Project B. The projects are expected to generate cash flows as under: **(15)**

Year	project-A	project-B
0	(-) 1,00,000	(-) 1,00,000
1	48,000	20,000
2	32,000	24,000
3	20,000	36,000
4	nil	48,000
5	24,000	16,000
6	12,000	8,000

Which project proposal should be recommended as per NPV method? Assume the cost of capital to be 10% p.a. The following are the present value factors at 10% per annum.

Year :	1	2	3	4	5	6
Factor :	0.909	0.826	0.751	0.683	0.621	0.564

Q6 a) In what ways is the wealth maximisation objective superior to the profit maximisation objective? **(5)**

b) Discuss how the financing, investment and dividend decisions of a company can help to attain the Wealth Maximization objective of Financial Management. **(10)**

Q7 Describe the assumptions and application of Walter's Dividend theory of relevance. Explain the model from the following information under the given payout conditions. **(15)**

Cost of Capital:	10 percent
Earnings per share:	Rs.5 per Share
Expected rate of return:	15 percent

What will be the market price of the share, if the dividend payout ratio is 0 percent, 50 percent and 100 percent?

Q8 **Write notes on : (Any THREE)** **(5 x 3)**

- **a)** Combined Leverage
- **b)** WACC
- **c)** Time value of money
- **d)** Profitability Index

Registration no: | | | | | | | | | | |

Total Number of Pages:03

MBA
15MNG203

2nd Semester Regular / Back Examination 2016-17
FINANCIAL MANAGEMENT
BRANCH: MBA
Time: 3 Hours
Max Marks: 100
Q.CODE:Z516

Answer Question No.1 & 2 which is compulsory and any four from the rest.
The figures in the right hand margin indicate marks.

Q1 **Answer the following questions:** (2 x 10)

(a) What is the modern approach of finance function?
(b) What is financing decision?
(c) What are the special features of Internal Rate of Return?
(d) What is weighted average cost of capital?
(e) Explain the importance of leverage.
(f) Sales of a company are Rs.7,00,000. Variable Costs Rs.5,00,000 and fixed costs Rs.1,50,000. Find out operating leverage.
(g) What is meant by optimum capital structure?
(h) Explain the relevance concept of dividend policy
(i) What are the internal short-term sources of working capital?
(j) Explain operating cycle.

Q2 Choose the best alternative (2x10)

(a) In value maximization objective, 'Value' signifies:
(i) Value of net assets, (ii) Market value of equity shares (iii) Both (i) & (ii) (iv) Social Welfare
(b) What will be the net present value of a project, if initial investment Rs.25,000; cash inflows Rs.10,000 p.a. for three years; present value of Re.1 as per annuity table @8% upto 3 years 2.577?
(i) Rs.5,000 (ii) Rs.30,000 (iii) Rs.770 (iv) Rs.25000
(c) High cost of capital is the evidence of:
(i) Low Income of the business (ii) Too much risk (iii) Unbalanced capital structure (iv) All the above
(d) The function of financial leverage is:
(I) Financial arrangement, (ii) Debt redemption (iii) Analysis of effect of fixed charges bearing sources of capital on profits (iv) Effect of equity share capital on profits.
(e) Implicit costs arise, when:
(i) There is cash inflow (ii) The funds are utilized (iii) The funds are acquired (iv) None of the above
(f) High gearing means:
(i) Equity share capital is less than fixed interest bearing capital
(ii) Equity share capital is more
(iii) Both are equal

(iv) Gearing is not related to capital structure

(g) Which of the following is not Walter's model assumption:

(i) The company has a very long or perpetual life.
(ii) All earnings are either reinvested internally or distributed as dividend
(iii) There is no floating cost for the company
(iv) None of these

(h) Excess of working capital is evidence of

i. Advanced credit
ii. Demand of the product
iii. Idle funds
iv. None of these

(i) Which pair of C's is not relevant while assessing credit worthiness of a customer?

(i) Character and Capacity (ii) Capital and Conditions (iii) Competition and Closeness (iv) None of the above

(j) Given: Annual consumption of materials 2,000 units; ordering cost per order Rs.30; Annual cost of carrying one unit Rs.3. Economic order quantity is:

(i) 150 units (ii) 200 units (iii) 100 units (iv) None of these

Q3 Cost sheet of a company (cost/unit) (15)

Raw Material	Rs.52.00
Direct Labour	Rs.19.50
Overhead	Rs.39.00
Total Cost	Rs.110.50
Profit	Rs.19.50
Following additional information:	
1.Raw material in stock	1 month
2.Material in process	½ month
3.Credit allowed by suppliers	1 month
4.Credit allowed to Debtors	2 months
5.Time lag in payment of wages	10 days
6.Time lag in payment in	One month
7.1/4 of sales in cash basis.	
8. Cash balance expected to be maintained is Rs.1,20,000.	

Prepare statement showing working capital required to finance a level activity of 70,000 units. Finished goods on an average stay in the godown for one month. Assume production takes place throughout evenly and wages and overheads occur similarly 1 year = 360 days.

Q4 a What is meant by Financial Leverage? How does it magnify the revenue available for equity shareholders? (15)

b A firm has sales of Rs.20,00,000 variable cost of Rs.14,00,000/- fixed cost Rs.4,00,000/- and 10% debentures of Rs.10,00,000/- in its capital structure . What are its financial leverage, operating leverage , and combined leverage?

Q5	Define the term working capital. What factors would you take into consideration in estimating the working capital needs of a concern?	(15)

Q6	The following details relate to two machines A and B	(15)

	Machine A	Machine B
Initial cost	Rs 1,12,250	Rs 1,12,250
Estimated Life	5 years	5 years
Salvage Value	Rs 6000	Rs. 6000

Annual Income after tax and depreciation;

Year	**Rs.**	**Rs.**
1	6,750	22,750
2	10,750	18,750
3	14,750	14,750
4	18,750	10,750
5	22,750	6,750

Overhauling charges at the end of 3^{rd} year will be Rs 20,000 in the case of Machine A and Rs 10,000 in case of Machine B. Depreciation has been charged at straight line method. Discounting rate is 10% and the PVF are: 0.909, 0.826, 0.751, 0.683 and 0.621 respectively. Suggest which machine should be used?

Q7	a.	Explain the relationship between capital structure and value of the firm.	(15)
	b.	A company is having EBIT Rs.1,00,000. Borrowed debt @10 % Rs.5,00,000 and overall capitalization (k) rate is 12.5%. What would be the value of the company and equity capitalization rate?	

Q8	'Traditionally, the role of Finance Manager was restricted to acquisition and efficient allocation of funds." Do you agree with this view? Justify your answer.	(15)

Registration No: | | | | | | | | | | |

Total Number of Pages:03

15MNG 203

2nd Semester Regular Examination - 2016

FINANCIAL MANAGEMENT

Q CODE : W 346

BRANCH: MBA

Time : 3 Hours

Max marks: 70

Answer Question No.1 & 2 which are compulsory and any four from the rest.

The figures in the right hand margin indicate marks.

Q1 Fill up the blanks in the following questions. Write only the answers in the Answer Book. (2 x 10)

a) Working Capital is required to finance operations during the time gap between ______________ and ______________

b) Operating cycle in days = ______________ period + ______________ period.

c) According to Baumol Model, the total cost associated with cash management has two elements ______________ and ______________.

d) In the case of conflict in ranking ______________ method provides better result than ______________ method.

e) ______________ and ______________ are the goals of Financial Management.

f) ______________ and ______________ are two internal sources of finance.

g) IRR equates ______________ with ______________.

h) Cash inflows of a project is generally composed of ______________ and ______________.

i) ______________ is the process of buying securities at lower price in one market and selling it in another market at a higher price bringing about ______________.

j) The stable dividend policy is generally of two types, such as ______________ and ______________.

Q2 (2x10)

a) If F is future value, I is rate of interest and P is Principal sum of an investment. Deduce the formula to find F for 'n' number of years.

b) Implicit cost may lead to insolvency. How ?

c) If a company pays a dividend at the rate of 12% on paid up share capital and dividend tax is 10%, how much the company should earn so as to meet the dividend payment, if the company falls under the tax bracket of 30%.

d) You desire to invest Rs.1,00,000 today and want Rs.2,00,000 as maturity money. If the annual compounding rate of interest is 9%, how long should you wait to get the desired amount ?

e) What are the two techniques to discuss the issue of time value of money?

f) If the current year's dividend is Rs.24, growth rate of the company is 10% and the required return on the stock is 16%, what is the intrinsic value of the stock?

g) Explain the concept of trading on equity with an example.

h) If the ratio of debt to equity increases, what would be its impact on WACC and market value?

i) Even if a project investment does not yield any profit, it has to be incurred. Is it true? When and Why?

j) Explain how do liquidity and profitability contradict each other in financial decisions.

Q3 a) A company furnishes the following data: (10)

Sales	-	Rs.3752 lakh
Cost of goods sold	-	Rs.3444 lakh
Opening Inventory	-	Rs.856 lakh
Closing Inventory	-	Rs.1073 lakh
Accounts receivable opening	-	Rs.852 lakh
Accounts receivable closing	-	Rs.636 lakh
Accounts payable opening	-	Rs.832 lakh
Accounts payable closing	-	Rs.846 lakh

Calculate OC & CCC

b) Explain the working capital cycle with diagram. (5)

Q4 a) VikasEngg. Ltd., has 1.00 lakh shares selling at Rs.100. The firm has net profits of Rs.10 lakh and wants to make a new investment of Rs.20 lakh during the period. The firm is thinking of declaring a dividend of Rs.5/- share at the end of the current fiscal year. The firm's opportunity cost of capital is 10%.What will be the price of share at the end of the year if (10)

a) Dividend is not declared
b) A dividend is declared.

b) In the above question, how many new shares may be issued? (5)

Q5 EEC Ltd. is considering the purchase of a machine. Two machines M1 and M2 are available each costing Rs.1,00,000. Both machines will last for five years with no residual value. In comparing the profitability of machines, a discount rate of 10% is to be used. Earnings after taxation @ 40% and charging depreciation straight line are expected to be as follows : (15)

Year	*M1 Rs.*	*M2 Rs*
1	10,000	(10,000) Loss
2	20,000	10,000
3	30,000	20,000
4	10,000	40,000
5	Nil	20,000

Indicate which machine would be a more profitable investment under the various methods of ranking investment proposals, viz., ARR, Pay Back, NPV and Profitability Index (PI).

Note : Present value interest factor @ 10% per annum.

Period :	0	1	2	3	4	5
Factor	1,000	0.909	0.826	0.751	0.683	0.621

Q6 a) The following information is available in respect of a company : (10)

	Rs.
Equity Share Capital (Rs.10 each)	10,00,000
Debentures (14%)	30,00,000
Contribution per unit	20
Fixed Costs	12,00,000

The Company is producing at present 1,00,000 units. Management of company's plans to increase output by 25%. The tax rate is 40%. You are required to make out the following calculations for the existing as well as planned level of output :

(i) Degree of Operating leverage
(ii) Degree of Financial leverage
(iii) Earning per share.

b) For an efficient cash management, Finance Managers design different strategies. What are they ? (5)

Q7 a) For each of the companies described below, would you expect it to have a medium, high or low dividend payout ratio ? Explain why. (5)

(i) A company with a large proportion of inside ownership, and all whom are high-income individuals;
(ii) A company with volatile earnings and high business risk.

b) "In the current economic scenario, financial management has assumed much greater significance. It is now a question of survival of entities in the total spectrum of economic activity, with the pragmatic re-adjustment of financial management" Comment. 10

Q8 a) Why should firms hold cash, knowing fully well that cash in hand is an idle asset. 5

b) The annual cash requirement of ABC Ltd. Is Rs.10 lakhs. The company has a number of marketable securities in lot sizes of Rs.50,000, Rs.1,00,000, Rs.2,00,000, Rs.2,50,000 and Rs.5,00,000. Cost of conversion of marketable securities per lot is Rs.1000. The company can earn 5% annual yield on its securities. 10

You are to advise the company which lot size marketable securities should be en-cashed and what would be the total holding cost ?

Registration No. : | | | | | | | | | |

Total number of printed pages – 3

MBA

MGT 202

Second Semester Regular Examination – 2015

FINANCIAL MANAGEMENT

BRANCH : MBAR

QUESTION CODE : J 219

Full Marks – 70

Time : 3 Hours

*Answer Question No. 1 which is compulsory and any **five** from the rest.*

The figures in the right-hand margin indicate marks.

1. Answer the following questions : 2×10

   (a) If a person deposits Rs.1000 on an account that pays him 10% for the first 5 years and 13% for the following eight years, what is the annual compound rate of interest for 13 year period ?

   (b) 'Generally individuals show a time preference for money'. Give reasons for such a preference.

   (c) The dividend per share of Sky Jet Co. Ltd. has grown from Rs.3.5 to Rs.10.5 over last 10 years. The share is currently selling for Rs.75. Calculate Sky Jets' capitalization rate.

   (d) What constitutes return on a single asset ? Should unrealized capital loss be included in the calculation of return ?

   (e) A project costs Rs.10,000 with a life span of 5 years. The cash flow is Rs.5,000 per annum. The cost of capital is 10% and reinvestment rate is 12%, how would you appraise the project ?

   (f) Explain how does the use of financial leverage result in increased financial risk of a business.

   (g) What is meant by financial distress ? What are its costs ?

   (h) Explain the bird-in-hand argument of dividend.

P.T.O.

(i) ABC Company earns 20% rate of return. Its required rate of return is 12%. The company follows a conservative dividend policy ; it pays out only 25% of profits as dividend. Some directors feel that shareholders deserve more divided and hence the company should increase its payout to 50%. Do you agree ? Give reasons.

(j) Do you recommend that a firm should finance its current assets entirely with short-term financing ? Explain your answer.

2. A company whose current sales are Rs.3.00 lakhs per annum and ACP is 30 days wants to pursue a more liberal credit policy to improve sales as shown below :

Credit Policy Policy	**Increase in Collection period days**	**Increase in Sales (Rs.)**
A	15	12,000
B	30	18,000
C	45	30,000
D	60	36,000
E	90	40,000

The selling price per unit is Rs.5.00. Average cost is Rs.4.00 per unit and variable cost Rs.2.75 per unit. Required rate of return on additional investment is 20%. Select the appropriate credit policy. 10

3. What is working capital cycle ? How is it different from cash conversion cycle ? Why are these concepts important in working capital management ? Explain will illustration. 10

4. The current capital structure of Poly Co. Ltd. as on 31.03.2014 is as follows :

		(Rs. Crore)
Share Capital (Rs.1000 par, 2 Crores shares)	=	200
Share premium	=	100
Reserves and Surplus	=	190
		490

The current market price of the company's shares is Rs.140 per share. The EPS for the year 2013 was Rs.17. The company has been paying a constant dividend of Rs.6.50 per share fsor the last 10 years.

What shall be the effect on ERS, dividend, share price and the capital structure if the company ?

(i) Splits its shares two for one

Or

(ii) Declares a bonus issue of one for twenty ? 10

5. A Company's current dividend is Rs.5/-. It expects a super normal growth period running to 5 years and growth rate would be 25%. Thereafter, company expects normal growth rate of 8%. The investors' required rate of return is 15%. Calculate the value of share. 10

6. Explain the merits and demerits of the time adjusted methods of evaluating the investment projects. 10

7. Do you feel that profit maximization objective is no more valid for a modern financial manager ? Why ? Explain the alternative before him. 10

8. Write short notes on any **two** of the following : 5×2

(a) Motives of holding cash

(b) Arbitrage process.

(c) Operating Leverage Vs Financial Leverage.

(d) Long term sources of funds.

Registration No. : | | | | | | | | | |

Total number of printed pages – 3

MBA
MGT 202

Second Semester Regular Examination – 2014

FINANCIAL MANAGEMENT

BRANCH(S) : MBA

QUESTION CODE : F 484

Full Marks – 70

Time : 3 Hours

*Answer Question No. 1 which is compulsory and any **five** from the rest.*
The figures in the right-hand margin indicate marks.

1. Answer the following questions : 2×10

(a) What is the relevance of compounding and discounting in the analysis of Time Value of money ?

(b) An investment doubles in 7 years. What is the rate of interest compounded annually ?

(c) The beta of XYZ Ltd. is 0.75. The market portfolio is expecting a return of 15%. The risk-free rate of interest in the market is 9%. Find the cost of equity.

(d) Explain with example Stock Split.

(e) If a company pays out dividend less than that the previous year what would it signal in the market ?

(f) What do you mean by cash-conversion cycle ?

(g) Deduce the formula ; $F = P(1 + r)^n$ where P is Principal amount, r is rate of interest and n is number of years of investment and F is future value of the investment.

(h) The firm changes the credit terms from "2/10, net 30" to "3/10, net 30". What will be its impact on the firm's receivables ?

P.T.O.

(i) What is factoring service ? Which organizations provide these services in India ?

(j) Why are capital budgeting decisions so important for a firm ?

2. The following is the Capital Structure of a company :

		Rs. in lakh
1.	Equity Capital	200
2.	14% Preference share (Rs.100 each)	100
3.	Retained earnings	100
4.	12% Debentures (Face Value Rs.100)	300
5.	11% Term Loan from ICICI	50

(i) The Market Value of equity share is Rs. 32. The company expects to declare a dividend of Rs. 2/- per share. There shall be a growth in the dividend @ 10% for next 5 years.

(ii) Preference shares are redeemable at a premium of Rs. 5 per share after 8 years and are currently traded at Rs. 84 in the market.

(iii) Debenture redemption will take place after 7 years at a premium of Rs. 5/- and current market price is Rs. 90/-.

(iv) Corporate tax rate is 40%.

Compute the WACC. 10

3. What are the basic objectives of financial management ? Explain why is wealth maximization principle superior to profit maximization. 10

4. What is working Capital ? Explain the determinants of working capital. 10

5. (a) Cash Ltd. estimates its total cash requirement of Rs. 8 lakh next year. The company's opportunity cost of funds is 15% per annum. The company will have to incur Rs. 600 per transaction when it converts its short term securities into cash. Determine the optimum cash balance according to Baumol Model. 5

(b) Total sales of firm is Rs. 62,50,000/-, cash sales is 20% of sales. Variable cost is 85% of sales. Fixed Cost is Rs. 3,12,500. Bad debt is 5%. The firm has a credit policy of 3/24 net 40.25% of credit customers avail cash discount facility. Required rate of return is 12%. Find the opportunity cost of investment in receivables. 5

6. The EPS of a firm is Rs.10. The equity capitalization rate is 20%. The Internal rate of return on retained earnings is 10% using Gordon's formula : 10

(a) What should be the optimum payment ratio of the company ?

(b) What should be the price of share at optimum pay out ratio ?

(c) Suppose the firm pays out 80%, will it affect the price of the share ?

7 Discuss the relative importance of different long term sources of funds. 10

8. Write short notes on any **two** : 5×2

(a) Operating cycle

(b) Financial Leverage

(c) Motives of holding cash

(d) Financial Decisions.

Registration No. : | | | | | | | | |

Total number of printed pages – 3

MBA

MBA 202

Second Semester Examination – 2013

FINANCIAL MANAGEMENT

QUESTION CODE : A 461

Full Marks – 70

Time : 3 Hours

*Answer Question No. **1** and **2** which are compulsory and any **four** from the rest.*

The figures in the right-hand margin indicate marks.

1. Answer the following questions : 2 × 10

   (a) When can there arise a conflict between Shareholders' goals and Managers' goal ? How does this conflict get resolved ?

   (b) How does the use of financial leverage result in increased financial risk ?

   (c) What is financial distress ? How does it after the value of a firm ?

   (d) What is the bird-in-the-hand argument in the context of dividend policy ? Is the argument fallacious ?

   (e) What is a stock-split ?

   (f) What is meant by financial flexibility ?

   (g) Is a flexible capital structure costly ?

   (h) What is agency conflict ?

   (i) What do you mean by time preference of money ?

   (j) Explain "arbitrage process".

2. **CASE ANALYSIS :** 10

   Sushmita Ltd. produces an electronic component with a selling price of Rs.100. Fixed cost amounts to Rs.2 lakh. 5,000 Units are produced and sold each year. Annual profits amount to Rs. 50,000. The company's all equity financed assets are Rs.5 lakh.

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The company proposes to change its production process, adding Rs.4,00,000 to investment and Rs.50,000 to fixed operational costs. The consequences of such a proposal are :

(i) Reduction in variable costs per unit Rs.10.

(ii) Increase in output by 2,000 units, and

(i) Reduction in selling price per unit to Rs.95.

Assuming an average cost of capital at 10%, examine the proposal and advise whether the company should make the change. Also, measure the degree of operating leverage and breakeven point.

3. A company is considering three methods of attracting customers to expand its business by undertaking – (A) advertising campaign, (15) display of neon signs and (C) direct delivery service. The initial outlay for each alternative is as under :

(A) Rs.1,00,000

(B) Rs.1,50,000

(C) Rs.1,50,000

If A is carried out, but not B, it has an NPV of Rs.1,25,000. If B is done, but not A, B has an NPV of Rs. 45,000. However, if both are done, then NPV is Rs. 2,00,000. The NPV of the delivery system C is Rs.90,000. Its NPV is not dependent on whether A or B is adopted and the NPV of A or B does not depend on whether C is adopted.

Which of the investments should be made by the company if

(i) firm has no budget constraint, and

(ii) the budgeted amount is only Rs.2,50,000 ? 10

4. Sushant Ltd. has the following capital structure :

	Rs.
Equity share	50,00,000
10% Preference shares	10,00,000
14% Debentures	20,00,000
	80,00,000

Equity shares of the company are sold at Rs.25 per share in the market. It is expected that the company will pay next year a dividend of Rs.4 per share which will grow at 8% forever. Assume a tax-rate of 30%.

Compute the new weighted average cost of capital, if the company raises an additional Rs.20,00,000 debt by issuing 15% debentures. This would increase the expected dividend to Rs.5 per share with dividend growth rate unchanged, but the price of share will fall to Rs.20 per share. 10

5. (a) Distinguish between 'Financial viability of a project' and 'commercial viability of a project'. 5

   (b) Explain important motives to hold cash. 5

6. What is meant by Capital Structure of a company ? What factors are taken into account while designing the Capital structure ? Does the dividend policy affect the Capital structure ? If so, explain. 10

7. (a) State the basic financial management decisions. How does a financial manager conduct risk-return trade off ? Explain with an example. 5

   (b) Discuss the challenges faced by financial manager in India. 5

8. (a) Explain with examples, the various approaches used for valuation of equity shares. 5

   (b) The market price of a bond is Rs. 1,800 whose par value is Rs. 2,000, coupon rate 9% and maturity after 8 years. What rate of return would an investor earn if he buys this bond from the market and holds it till maturity. Use the interpolation method. 5

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Second Semester Examination – 2012

FINANCIAL MANAGEMENT – II

Full Marks – 70

Time : 3 Hours

*Answer Question No. **1** and **2** which are compulsory and any **four** from the rest.*

The figures in the right-hand margin indicate marks.

1. Answer the following questions : 2×10

   (a) Name the different forms of dividend payment.

   (b) What is meant by time preference of money ?

   (c) What is Residual reserve criterion of Bonus shares ?

   (d) What is WACC ?

   (e) What is conservative approach of working capital finance ?

   (f) What is the traditional theory of capital structure ?

   (g) How do you compute the cost of debenture ?

   (h) Draw a specimen timeline to indicate the cash flows.

   (i) State two conditions when NPV and IRR of an investment proposal may give contradicting results in a mutually exclusive project.

   (j) What is Profitability Index ?

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2\. CASE STUDY : 10

Mentor Technology Ltd is planning to raise capital from market by way of debt as well as equity.

Merchant bankers to issue have advised as follows :

The firm can issue a 12 % debenture with face value of Rs. 1000 redeemable at par after 8 years. The current market price is Rs. 980 per debenture. For equity issue the merchant bankers have advised that the company would have to offer a discount of 5% on the face value of Rs. 100 per share. The company can go ahead with the plan of dividend of Rs. 6 as against Rs. 5 last year. The firm can also issue 14% Pref share of Rs. 100 each which has a current quotation in the stock market at Rs. 90 per share.

Following is the composition if liabilities of mentor technology limited based on books of accounts :

Particulars	Book value (Rs. Crores)
Equity Share capital	100
14% Preference share capital	100
Retained earnings	400
12% Debenture	200

The firm pays income tax at rate of 35%.

Answer the following questions :

(a) What is the cost of debenture after tax ?

(b) What is the cost of equity ?

(c) What is the cost of Pref share ?

(d) What is the weighted average cost of capital (WACC) of Mentor Technologies ?

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3. Describe the assumptions and application of Walter's Dividend theory of relevance. Explain the model from the following information under the given payout conditions. 10

Cost of Capital : 10 percent

Earnings per share : Rs. 5

Expected rate of return : 15 percent

What will be the market price of the share, if the dividend payout ratio is 0 percent, 60 percent and 100 percent ?

4. Discuss how the financing, investment and dividend decisions of a company can help to attain the Wealth Maximization objective of Financial Management. 10

5. What is capital structure ? Explain the net income approach of capital structure theory with hypothetical illustration. 10

6. (a) Define Operating Leverage, Financial Leverage and Combined Leverage. 5

(b) From the following figures relating to two companies A and B, compute DOL, DFL and DCL. 5

Particulars	A (Rs.)	B (Rs.)
Sales	5,00,000	8,00,000
Less : Variable cost	2,00,000	3,00,000
Contribution	3,00,000	5,00,000
Less : Fixed Cost	1,50,000	1,50,000
EBIT	1,50,000	3,50,000
Less : Interest	50,000	1,00,000
	1,00,000	2,50,000

7. A firm is considering two mutually exclusive investment proposals with the following cashflows :

Year.	Project X (Rs.)	Project Y (Rs.)
1	– 2,50,000	– 1,50,000
2	50,000	30,000
3	65,000	25,000
4	50,000	40,000
5	55,000	35,000
6	65,000	45,000

The firm's cost of capital(k) is 10% p.a. Compute the NPV of both the alternatives and state which project is suitable. The Present Value Interest Factors at 10% are 0.909, 0.856, 0.785, 0.654 and 0 .535 over 1 to 5 years. 10

8. What do you mean by Working capital ? Briefly explain the determinants of Working capital for Indian Manufacturing companies. 10