Rs. 1,20,000. You are required to prepare a statement showing the working capital needed to finance a level of activity of 70,000 units of output. You may assume that production is carried on evenly, throughout the year and wages and overheads accrue similarly.

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Question Paper Code : 1648

M.B.A. (Semester-II) Examination, 2018

(Common Subject)

FINANCIAL MANAGEMENT

[IMS-023]

Time : Three Hours] **[Maximum Marks : 70**

Note : Attempt **five** questions in all, Question No. **1** is **compulsory** and carries **30** marks. Attempted **one** question of **10** marks from each unit.

1. Answer the following in brief : [3x10=30]

   (a) "Individuals do have a time preference for money" State the reason for such preference.

   (b) "As there is no explicit cost of retained earnings, these funds are free of cost". Comment.

   (c) The capital structure of ABC Company is as follows. Find out the weighted average cost :

Sources	Amount (Rs.)	Specific cost of Capital (%)
Debentures	5,00,000	8% (before tax)

Preference Shares	4,00,000	10%
Equity Shares	8,00,000	12%
Retained Earning	3,00,000	10%

Corporate tax rate = 50%

(d) What are the advantages and disadvantages of debenture as an instrument of financing from the point of view of the company ?

(e) Calculate the cost of capital in each of the following cases :

(i) A company issues 1000, 7% irredeemable debenture of Rs. 100 each, floatation cost is Rs. 2.5 per debenture.

(ii) The expected current year dividend per share is Rs. 18 subsequent growth in dividends is expected at a rate of 6% current market price per share is Rs. 90.

(iii) Dell Ltd. has Rs. 100 preference share redeemable at a premium of 10% with 15 year maturity. The coupon rate is 12%. Floatation cost is 5%.

(f) Find out the present value of the following :

(i) Rs. 1500 receivable in 7 years at a discount rate of 15%

(a) What should be the optimum payout ratio ?

(b) What should be the market price per share if the payout ratio is zero ?

(c) Suppose the company has a payout of 25% of EPS, what would be the prices per share ? Also compute market price per share if dividend payout ratio is 50% and 80%.

9. A proforma cost sheet of a company provides the following data : [10]

Particulars Costs (per unit)	Rs.
Raw Materials	52.0
Direct Labour	19.5
Overheads	39.0
Total cost (per unit)	110.5
Profit	19.5
Selling price	130.0

The following is the additional information available :

Average raw material in stock : One month; average material in process : Half a month. Credit allowed by suppliers : one month; credit allowed to debtors : two months. Time lag in payment of wages : One and a half week, Overheads : One month. One fourth of sales are on cash basis. Cash balance is expected to be

Prepare income statements of the two companies. Also comment on financial position and structure of the two companies.

7. MC Ltd. is planning an expansion program which will require Rs. 30 crores and can be funded through one of the three following options : [10]

(a) Issue further equity share of Rs. 100 each at par.

(b) Raise a 15% loan and

(c) Issue 12% preference shares

The present paid up capital is 60 crores and current annual EBIT is Rs. 12 crores. The tax rate may be taken at 50% after the expansion plan is adopted, the EBIT is is expected to be Rs. 15 crore. Calculate the EPS under all the three financing options indicating the alternative giving the heighest return to the equity shareholders. Also determine the indifference point between the equity share capital and the debit financing (in option 1 and option 2 above)

UNIT-IV

8. The earning per share of a share of the face value of Rs. 100 of PQR Ltd., is Rs. 20. It has a rate of return of 25%. Capitalization rate of its risk class is 12.5%. If Walter's model is needed : [10]

(ii) An annuity of Rs. 5500 starting in 7 years time lasting for 7 years at a discount rate of 10%.

(iii) An investment which is expected to give a return of Rs. 2500 p.a. indefinitely and the rate of interest is 12%

(g) Determine the Risk Adjusted Net Present Value of the following projects :

Net cash outlay (Rs.)	1,00,000
Project life	5 years
Annual cash inflow (Rs.)	30,000
Risk free rate of return	5%
Risk premium	4%

(h) What are the motives of holding cash ?

(i) What are the considerations governing the maximum and minimum level of inventory ?

(j) What are the factors which influence the dividend policy of a firm ?

UNIT-I

2. Comment on the following statements : [3+3+2+2=10]

(a) "Financial decision making involve risk return trade-off. "

(b) "Cash flows occurring at different point of time are not comparable."

(c) "Wealth maximization is superior then profit maximization."

(d) "Discounting and Compounding techniques help in sinking funds creation and capital recovery".

3. "Form the point of view of a corporate unit, Financial Management is related not only to funds raising but encompasses the wider perspective of managing the finances for the company efficiently." Elucidate. [10]

UNIT-II

4. A company is considering which of two mutually exclusive project it should undertake. The Finance Director thinks that the project with 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 & length of life. The company anticipates a cost of capital of 10 % and the net after tax cash flow of the project are as follows : [10]

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

Required :

(a) Calculate the NPV and IRR of each project.

(b) State with reasons which project would you recommend and explain the inconsistency of the two projects.

5. (a) What are the different types of risk that may affect the capital budgeting decisions ? [5]

(b) Calculate cash inflow and payback period from the following particulars :

Cost of machine Rs. 16,00,000

Working life of the machine 20 years

Salvage value of the machine : Rs. 1,60,000

Annual earning after depreciation and before tax : Rs. 5,00,000.

Tax rate : 50%

UNIT-III

6. The following financial data have been furnished by A Ltd. and B Ltd for the year ended 31.3.2016 :

Particulars	A Ltd.	B Ltd.
Operating Leverage	3:1	4:1
Financial Leverage	2:1	3:1
Interest charges per annum	Rs. 12 Lakh	Rs. 10 Lakh
Corporate tax rate	40%	40%
Variable cost as % of sales	60%	50%