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14MBA22

Second Semester MBA Degree Examination, Dec.2018/Jan.2019

Financial Management

Time: 3 hrs. Max. Marks:100

Note: Use of P.V. tables is permitted.

SECTION - A

Note : Answer any FOUR questions from Q.No.1 to Q.No.7.

1 What d you mean by cumulative preference share? **(03 Marks)**

2 Define the term financial leverage. **(03 Marks)**

3 What is the conservative approach to financing a firm's funds requirements? **(03 Marks)**

4 What is financial modeling? **(03 Marks)**

5 An issue of 15% irredeemable debenture with face value of Rs.100, assume the rate of corporate tax is (i) zero (ii) 40%. Calculate the cost of debt. **(03 Marks)**

6 What do you mean by capital rationing? **(03 Marks)**

7 What is money market? **(03 Marks)**

SECTION - B

Note : Answer any FOUR questions from Q.No.1 to Q.No.7.

1 Describe the important steps involved in the capital budgeting process. **(07 Marks)**

2 What is merger? Explain in brief its types. **(07 Marks)**

3 Explain the interface of financial management with other functional areas. **(07 Marks)**

4 The shares of a leather company are selling at Rs.30 per share. The firm has paid dividend at the rate of Rs.3 per share last year. The estimated growth of the company is approximately 6% per year.
 i) Determine the cost of equity capital of the company.
 ii) Determine the new cost of equity capital if the anticipated growth rate of the firm (1) rises to 9% (2) falls to 3%. **(07 Marks)**

5 A firm is due to receive Rs.1,00,000 a year for the next 5 years and Rs.1,40,000 at the end of the sixth year. Money is worth 12%.What is the present value of the stream? **(07 Marks)**

6 What is meant by lease financing? Briefly explain its types. **(07 Marks)**

7 Calculate the operating cycle of Anand Ltd. The enterprise gets 30 days credit from its suppliers. All sales are based on credit. Assume 365 days in a year. **(07 Marks)**

Raw materials consumption per annum	8,42,000
Annual cost of production	14,25,000
Annual cost of sales	15,30,000
Annual sales	19,50,000
<u>Current assets</u>:	
Raw material	1,24,000
Work in progress	72,000
Debtors	2,60,000
Finished goods	1,50,000

SECTION - C

Note : Answer any FOUR questions from Q.No.1 to Q.No.7.

1 What are the primary objectives of financial management? Explain. **(10 Marks)**

2 Briefly explain the factors affecting dividend policies. **(10 Marks)**

3 Differentiate between primary and secondary market. **(10 Marks)**

4 Three financing plans are available to Ahuja Products, which needs Rs.10,00,000 for construction of a new plant. Ahuja wants to maximize EPS. Currently the equity share is selling for Rs.30 per share. The EBIT resulting from the plant operation is Rs.1,50,000 per year. Ahuja's marginal tax rate is 50%. Money can be borrowed at the rates indicated.
Up to Rs.1,00,000 at 10%
Over Rs.1,00,000 to Rs.5,00,000 at 14%
Over Rs.5,00,000 at 18%.
The three financing plans are as follows:
Plan X: Use Rs.1,00,000 debt; expected EBIT = Rs.2,50,000
Plan Y: Use of Rs.3,00,000 debt; expected EBIT = Rs.3,50,000
Plan Z: Use of Rs.6,00,000 debt; expected EBIT = Rs.5,00,000
Determine the EPS for these three plans and indicate the financing plan which will result in the highest EPS. **(10 Marks)**

5 The following data are available for X Ltd.
Selling price per unit Rs.120
Variable cost per unit Rs.70
Total fixed cost Rs.2,00,000.

i) What is operating leverage when X Ltd, produces and sells 6000 units?
ii) What is the percentage change that will occur in the EBIT of X Ltd, if output increases by 5%? **(10 Marks)**

6 A proforma cost sheet of a company provides the following particulars:

Elements of cost	Amount per unit
Materials	50%
Direct labour	15%
Overheads	15%

The following further particulars are available:

i) It is proposed to maintain a level of activity of 3,00,000 units.
ii) Selling price is Rs.20 per unit.
iii) Raw materials are expected to be in the stores for an average of 2 months.
iv) Material will be in process on average of one month.
v) Finished goods are required to be in stock for an average of 2 months.
vi) Credit allowed to debtors is 2 months.
vii) Credit allowed by suppliers is 2 months.

Estimate the working capital requirements. **(10 Marks)**

7 Sushma Corporation has the following book value of capital structure.

Securities	Amount (Rs.)	After tax cost
Equity capital (15,00,000 shares at Rs.10 each)	1,50,00,000	
10% preference shares	50,00,000	10%
Retained earnings	1,00,00,000	
13% debentures	60,00,000	13%
Term loan (12%)	70,00,000	12%
	4,30,000	

Expected dividend is Rs.2 per share. Calculate weighted average cost. **(10 Marks)**

SECTION - D

CASE STUDY – [Compulsory]

Following is the data regarding two projects being considered.
The required rate of return is 10%. Tax rate is 50%, depreciation which is charged on straight line method.

	Project A	Project B
Initial outlay (Rs.)	1,00,000	1,40,000
Salvage value (Rs.)	-	20,000
Earnings before depreciation and taxes		
Year		
1	25,000	40,000
2	25,000	40,000
3	20,000	40,000
4	20,000	40,000
5	25,000	40,000

Evaluate the projects with regard to their viability by NPV method. Which of the two projects should be accepted? **(20 Marks)**

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