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12MBA25

Second Semester MBA Degree Examination, June/July 2017
Financial Management

Time: 3 hrs. Max. Marks:100

Note: 1. ***Answer any THREE questions from Q.No. 1 to Q.No. 6.***
2. ***Question No.7 and 8 are compulsory.***

Important Note : 1. On completing your answers, compulsorily draw diagonal cross lines on the remaining blank pages.
2. Any revealing of identification, appeal to evaluator and /or equations written eg, 42+8 = 50, will be treated as malpractice.

1 a. Define Financial Management. **(03 Marks)**
b. Explain the objectives of Financial Management. **(07 Marks)**
c. Briefly explain the factors affecting dividend policy. **(10 Marks)**

2 a. What do you understand by Gross Working Capital and Net Working Capital? **(03 Marks)**
b. The beta coefficient of Target Ltd is 1.4. The company has been maintaining 8% rate of growth individuals and earnings. The last dividend paid was ₹ 4 per share. The return on government securities is 10% while the return on market portfolio is 15%. **(07 Marks)**
i) What will be the equilibrium price per share of Target Ltd?
ii) Would you advice purchasing the share if the current market price of one share of Target Ltd., is ₹ 36.
c. Distinguish between a Share and a Debenture. **(10 Marks)**

3 a. What is Agency cost? **(03 Marks)**
b. Briefly explain the Emerging issues in Financial Management. **(07 Marks)**
c. Hind Company has the follow income statement for 2015.

Sales	50,00,000
Less Variable Operating costs	10,00,000
Fixed Operating costs	20,00,000
EBIT	20,00,000
Less Interest	5,00,000
EBT	15,00,000
Less Tax at 40%	6,00,000
EAT	9,00,000
Less preferred dividend	1,00,000
Equity earning	8,00,000

Equity shares issue (Numbers) 4,00,000
i) Compute Hind's DOL , DFL and DCL.
ii) If sales increased to ₹ 55,00,000. What is your forecast of EPS? **(10 Marks)**

4 a. What is Financial Engineering? **(03 Marks)**
b. Discuss Factors relevant in determining Capital structure. **(07 Marks)**
c. Aries Ltd wishes to raise additional finance of ₹ 10 lakh for meeting its investment plans. It has ₹ 2,10,000 in the form of retained earnings available for investment purpose. The following are the further details :
i) Debt – Equity mix 30 : 70 ii) Cost of debt : Upto ₹ 180000, 10% (before tax) ; Beyond ₹ 180000 , 12% (before tax) iii) EPS ₹ 4 iv) Dividend payout , 50% of earnings v) Expected growth rate in dividend is 10% vi) Current market price per share ₹ 44 vii) Tax rate 35%. You are required

1) To determine the pattern for raising the additional finance, assuming the firm intends to maintain existing debt / equity mix.
2) To determine the post – tax average cost of additional debt.
3) To determine the cost of retained earnings and cost of equity.
4) Compute the overall cost of capital (after tax) of additional finance. **(10 Marks)**

5 a. What is Time value of Money? **(03 Marks)**
b. An executive is about to retire, his employer has offered him two port retirement options :
i) ₹ 20,00,000 lumpsum ii) ₹ 2,50,000 for 10 years.
Assuming 10% interest, which is a better option? [PVIFA = 6.1446]. **(07 Marks)**
c. Explain various factors influencing working capital. **(10 Marks)**

6 a. Define Capital Budgeting. **(03 Marks)**
b. A project requires an investment of ₹ 5,00,000 and has a scrap value of ₹ 20000 after five years. It is expected to yield profits after depreciation and taxes during the five years amounting to ₹ 40,000 , ₹ 60,000 , ₹ 70,000 , ₹ 50,000 and ₹ 20,000. Calculate the average rate of return on the investment. **(07 Marks)**
c. From the following projections of XYZ Ltd., for the next year, you are required to determine the working capital required by the company.
i) Annual sales ₹ 14, 40,000 ii) Cost of production (including depreciation of ₹ 120000) ₹ 12,00,000 iii) Raw materials purchased ₹ 7,05,000 iv) Monthly expenditure ₹ 30,000 v) Estimated opening stock of raw materials ₹ 1,40,000 vi) Estimated closing stock of raw materials ₹ 1,25,000.
Inventory norms : Raw materials 2 months, Work-in-progress ½ month and Finished goods 1 month. The firm enjoys credit of half – a – month on its purchases and allows one month credit on its supplies. On sales orders the company receives an advance of ₹ 15,000. You may assume that production is carried out evenly throughout the year and minimum cash balance desired to be maintained is ₹ 35,000. **(10 Marks)**

7 a. Define Capital Structure. **(03 Marks)**
b. A simplified income statement of Zenith Ltd., is given below. Calculate and interpret its degree of operating leverage, degree of financial leverage and degree of combined beverage. Income statement of Zenith Ltd., for the year ended 31st March 2015. **(07 Marks)**

Sales	10,50,000
Variable cost	7,67,000
Fixed cost	75,000
EBIT	2,08,000
Interest	1,10,000
Taxes (30%)	29,400
Net Income	68,600

c. Discuss the various approaches to determine an appropriate financing mix of working capital. **(10 Marks)**