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.

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14MBA22

Second Semester MBA Degree Examination, Dec.2015/Jan.2016

Financial Management

Time: 3 hrs. Max. Marks:100

SECTION - A

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

1 State the three types of financial decisions. **(03 Marks)**

2 What do you mean by Angel investing? **(03 Marks)**

3 Define cost of capital. **(03 Marks)**

4 What do you mean by derivatives? **(03 Marks)**

5 State the meaning of mergers and acquisitions. **(03 Marks)**

6 What is Stock dividend? **(03 Marks)**

7 What do you mean by discounted pay back period? **(03 Marks)**

SECTION - B

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

1 Explain any seven factors affecting dividend policy of an organisation. **(07 Marks)**

2 Distinguish between capital market and money market. **(07 Marks)**

3 Explain the changing role of finance managers.

4 Calculate operating, financial and combined leverage from the following data :

Share capital (shares of ₹ 100 each)	10,00,000
8% Debentures	5,00,000
Sales	5,00,000
Variable cost	40% of sales.
Fixed cost	₹ 1,00,000
Tax Rate	30%.

(07 Marks)

5 ABC Ltd issues 12% debentures of ₹ 6,00,000. The tax rate applicable is 30%. Compute the cost of debt capital i) at par ii) at 10% premium and iii) at 10% discount. **(07 Marks)**

6 Compute MIRR of the following project

Year	0	1	2	3	4	5	6
Cash flow (₹)	4,85,000	85,400	96,500	1,32,600	2,16,000	1,24,000	98,500

Cost of capital 12%. **(07 Marks)**

7 Write a note on Capital Asset Pricing Model (CAPM).

SECTION - C

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

1 Compute the following :
   a. A company raised a loan of ₹ 50,00,000 from a bank @ 9% interest p.a. The amount has to be paid back in 5 equal annual installments. Calculate the installment amount.
   b. A person wishes to go on world tour after 10 years. The expected cost of which is ₹ 20,00,000. How much amount he should have every year at 10% p.a. to fulfill his dream?
   c. Mr. X deposited ₹ 1000 at 10% interest with half yearly compounding. He wants to know the effective ROI. If the interest is compounded quarterly, what is the effective rate of interest? **(10 Marks)**

2 A company plans to undertake a project for placing a new product in the market. The company cut off rate is 12%. It was estimated that the project would cost ₹ 40,00,000 in plant and machinery in addition to working capital ₹ 10,00,000 at the end of life of the project. Scrap value – 10%. After tax, profits were estimated as follows :

Year	1	2	3	4	5
PAT (₹)	3,00,000	8,00,000	13,00,000	5,00,000	4,00,000
DF 12%	0.893	0.797	0.712	0.636	0.567

Evaluate the project under : i) PBP ii) ARR iii) NPV. **(10 Marks)**

3 On the basis of following information, determine the weighted average cost of capital. (Assume tax rate is 40%). **(10 Marks)**

Capital component	Details
a) Equity share capital	10,00,000 equity shares of ₹ 100 market value per share ₹ 250. Growth rate of dividend – 6%. Dividend per equity share ₹ 25.
b) Retained earnings	₹ 5 crores.
c) Debentures	1,00,000 debentures of ₹ 100 each. Interest rate 15%. Current market value ₹ 110 each.
d) Preference capital	50,000 shares of ₹ 100 each dividend rate 11% current market price ₹ 90 each.

4 Discuss the dangers of excess working capital and inadequate working capital. **(10 Marks)**

5 Chandra Ltd has a capital of ₹ 10,00,000 divided into 1,00,000 equity shares of ₹ 10 each. The management desires to raise another ₹ 10,00,000 to finance a major expansion programme. There are four possible financial plans :
   a. All equity shares.
   b. All Debentures carrying 8% interest.
   c. ₹ 5,00,000 in equity shares and ₹ 5,00,000 in debentures carrying 10% interest.
   d. ₹ 5,00,000 in equity shares and ₹ 5,00,000 in 10% preference shares.

   You are required to calculate EPS if the EBIT is ₹ 6,00,000. Assume tax rate 30%. **(10 Marks)**

6 Briefly discuss the different sources of financing available for a company. **(10 Marks)**

7 A plastic manufacturing company is considering replacing old machine which was fully depreciated for tax purposes with a new machine costing ₹ 40,000. The new machine will be depreciated over its eight year life. It is estimated that the new machine will reduce labour costs by ₹ 8,000 per year. The management believes that there will be no change in other expenses and revenues of the firm due to the machine. The company requires an after tax return on investment of 10%. Its tax rate is 30%. The company's income statement for the current year is given for other information.

Income statement for the current year (₹)

Sales		5,00,000
Costs :		
Materials	₹ 1,50,000	
Labour	2,00,000	
Factory & office exp.	40,000	
Depreciation	40,000	4,30,000
Profit before tax		70,000
Less Tax @ 30%		21,000
Profit After Tax		49,000

Should the company buy the new machine? You may assume the company follows SLM of depreciation. **(10 Marks)**

SECTION - D

CASE STUDY – [Compulsory]

1. A company is currently operating at 60 percent level, producing 36,000 units of a product and proposes to increase in capacity utilization in the coming year by 33.33% over the existing level of production. The following data has been supplied.

Cost structure per unit ₹

Raw Materials	80
Wages (variables)	40
Overheads (variables)	40
Fixed overheads	20
Profit	60
Selling price	240

Additional Information :

a) Raw materials will remain in stores for 1 month before being issued for production. Materials will remain in process for further one month. Supplier grant 3 months credits to the company.

b) Finished goods remain in stores for 1 month.

c) Debtors are allowed credit for 2 month.

d) Average time lag in payment of wages and overheads is 1 month and these expenses accrue evenly throughout the production cycle.

e) Selling price is estimated to be increased by 10%.

You are required to prepare :

1) Projected profitability statement.

2) A statement showing working capital requirements at the new level assuming minimum cash balance of ₹ 50,000. **(20 Marks)**

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