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14MBA22

Second Semester MBA Degree Examination, Dec.2017/Jan.2018
Financial Management

Time: 3 hrs. Max. Marks:100

Note: ***Use of Time value table is permitted.***

SECTION - A

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

1 What do you mean by seed capital? **(03 Marks)**

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

3 What is factoring? **(03 Marks)**

4 If the interest rate is 12%, what are the doubling periods as per rule of 72 and 69? **(03 Marks)**

5 Name the various kinds of financial derivatives. **(03 Marks)**

6 What do you mean by behavioural finance? **(03 Marks)**

7 What is letter of credit? **(03 Marks)**

SECTION - B

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

1 A company offers 12% rate of interest on deposits. What is the effective rate of interest if it is compound (i) half yearly, (ii) quarterly, (iii) monthly? **(07 Marks)**

2 Write a note on long term sources of funds which can be raised within India. **(07 Marks)**

3 The balance sheet of a company is as under:

Liabilities	Amt	Asset	Amt
Equity capital (Rs.10)	60,000	Fixed Assets	1,75,000
10% debenture	80,000	Current assets	25,000
Retained earnings	20,000		
Current liabilities	40,000		
	2,00,000		2,00,000

The company's total assets turnover is 3 times, its fixed operating cost is Rs.1,00,000 and its variable operating cost is 40% of sales, tax rate is 40%. Calculate the degree of financial leverage, operating leverage and combined leverage. **(07 Marks)**

4 The cash flows associated with an investment are given below:

Year	0	1	2	3	4	5
	-1,00,000	25,000	40,000	50,000	40,000	30,000

Calculate: i) Payback period,

ii) Discounted payback period assuming 10% discount rate. **(07 Marks)**

5 An executive is about to retire at the age of 60 years. His employer has offered him two post retirement options (i) Rs.20,00,000 lumpsum, (ii) Rs.2,50,000 for 10 years. Assuming 10% interest, which is a better option? **(07 Marks)**

6 The following data for 'X' Ltd for the year ended 2015 is given below:
Profit and Loss A/C data: (Rs. In millions)
Sales = 80, Cost of goods sold = 56.
Balance Sheet Data (Rs. in Millions)

	01-01-2015	31-12-2015
Inventory	9	12
Accounts receivable	12	16
Accounts payable	7	10

What is the length of the operating cycle and the cash cycle? Assume 365 days in a year. **(07 Marks)**

7 Explain the various factors influencing working capital. **(07 Marks)**

SECTION - C

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

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

2 The Trish Ltd. needs 50,00,000 for construction of a new plant. The following three financial plans are feasible.
i) The company may issue 50,000 equity shares at Rs.100 per share.
ii) The company may issue 25,000 equity shares at Rs.100 each and 25000 debentures at Rs.100 each at 8% interest.
iii) The company may issue 25000 equity share at Rs.100 per share and 25000 preference shares at Rs.100 each bearing 8% rate of dividend.

If the company's earnings before interest and taxes are Rs.1,00,000, Rs.2,00,000 and Rs.40,00,000, what are the earnings per share under each of the 3 financial plans. Which alternative would recommend and why? Assume corporate tax to be 50%. **(10 Marks)**

3 A company is considering an investment proposal to install new milling controls at a cost of Rs.50,000. The facility has a life expectancy of 5 years and no salvage value. The tax rate is 35%. Assume that the firm uses SLM of depreciation and the same is allowed for tax purpose. The estimated cash flows before depreciation and tax (CFBT) from the investment proposal are as follows:

Year	1	2	3	4	5
Cash flow before tax	Rs.10,000	Rs.10,692	Rs.12,769	Rs.13,462	Rs.20,385

Computer the following:
i) Payback period
ii) Accounting rate of return
iii) Net present value
iv) Profitability index at 10% discount rate **(10 Marks)**

4 Briefly explain the factors affecting dividend policy of a company. **(10 Marks)**

5 While preparing a project report on behalf of a client you have collected the following facts. Estimate the net working capital required for the project. Add 10% to your computed figure to allow contingencies.

Particulars	Amt per unit
Estimated cost per unit of production:	
Raw material	80
Direct labour	30
Overhead (exclusive of depreciation Rs.10 per unit)	60
Total cost	170

Additional information:
Selling price Rs.200 per unit, level of activity 104000 units of production p.a., raw materials in stock, average 4 weeks, finished goods in stock average 4 weeks, WIP (assume 50% completion stage in respect of conversion costs and 100% completion in respect of materials), average 2 weeks. Credit allowed by suppliers, average 4 weeks, credit allowed to debtors, average 8 weeks lag in payment of wages, average 1.5 weeks, cash at bank is expected to Rs.25,000.

You may assume that production is carried on evenly throughout the year (52 weeks) and wages and overheads accrue similarly. All sales are on credit basis only. **(10 Marks)**

6 Discuss the various risks associated with an asset. **(10 Marks)**

7 Describe the functions of primary and secondary market. **(10 Marks)**

SECTION - D
CASE STUDY – [Compulsory]

As a financial analyst of a large electronics company, you are required to determine the WACC of company using (i) book value weight and (ii) market value weights. The following information is available for your perusal. The company's present book value structure is:

Debenture (Rs.100 per debenture)	Rs. 8,00,000
Preference shares (Rs.100 per share)	Rs. 2,00,000
Equity shares (Rs.10 per share)	Rs.10,00,000
	Rs. 20,00,000

All these securities are traded in the capital markets. Recent prices are: debentures Rs.110 per debentures, preference share Rs.120 per share and equity shares Rs.22 per share.
Anticipated external financing opportunities are:

i) Rs.100 per debenture redeemable at par, 10 years to mature 11% coupon rate, 4% floation costs, sales price Rs.100.
ii) Rs.100 preference share redeemable at par; 10 years to mature, 12% dividend rate, 5% floation costs, sales price Rs.100.

In addition, the dividend expected on the equity share at the end of the year is 2 per share; the anticipated growth rate in dividends is 7% and the firm has the practice of paying all its earnings in the form of dividends. The corporate tax rate is 35%. **(20 Marks)**

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