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05MBA23

Second Semester MBA Degree Examination, December 2012
Financial Management

Time: 3 hrs. Max. Marks:100

Note: ***1. Answer any FOUR full questions from Q.No.1 to 7.***
2. Q.No. 8 is 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. What is financial management? **(03 Marks)**
b. Mention the dangers of excess working capital. **(07 Marks)**
c. Calculate the present value of Rs.60,000/-
(I) i) Received one year from now.
ii) At the end of 5 years.
iii) Received at the end of 15 years.
Assume 5% preference rate.
(II) A company purchases an asset installment basis by agreeing to pay Rs.200,000 at the end of each year for 9 years. Assuming the interest rate is 12%. What is the cash price of the asset? **(10 Marks)**

2 a. What is cost of capital? **(03 Marks)**
b. Explain the functions of CFO as s treasurer in a company. **(07 Marks)**
c. A company ltd. is considering purchase of a new machine. Two alternative machines, machine A and machine B have been suggested, each having an initial cost of Rs.400,000 and requiring Rs.20,000 at the end of 1[st] year. Earnings after taxation are expected to be as follows:

	Cash Inflows		
Year	Machine A Rs.	Machine B Rs.	DF@ 10%
1	40,000	120,000	0.909
2	120,000	160,000	0.826
3	160,000	200,000	0.751
4	240,000	120,000	0.683
5	160,000	80,000	0.621

Which machine should be selected on the basis of NPV? **(10 Marks)**

3 a. What do you mean by call option and put option? **(03 Marks)**
b. Briefly state the merits and demerits of issuing fresh equity shares for raising funds. **(07 Marks)**
c. A newly established company wishes to determine an appropriate capital structure. It can issue 12%. Debentures and 10% preference capital. The existing tax levied 35%. The company requires 1 crore of capital. The probabilities are as follows:

Plan	12% debentures	10% preference shares	Equity capital
I	-	-	100%
II	30%	-	70%
III	30%	20%	50%

Assuming EBIT Rs.12,00,000 and face value of shares Rs.100. Calculate EPS under three financial plans. **(10 Marks)**

4 a. What are gross and net working capital? **(03 Marks)**
b. Explain the steps in financial planning. **(07 Marks)**
c. Discuss the factors affecting dividend policy decisions of a company. **(10 Marks)**

5 a. What do you mean by operating lease? **(03 Marks)**

b. Explain the factors affecting working capital requirements of a firm. **(07 Marks)**

c. The capital structure of premier software Ltd, Bangalore consists of an equity share capital of Rs.10,00,000 (shares of Rs.100 each) and Rs.10,00,000 10% debentures. Sales increased by 20% from 100,000 units to 120,000 units, the selling price is Rs.10 per unit, variable cost amount to Rs.6 per unit and fixed expanses Rs.200,000. The tax rate assumed be the 50%.
You are required to calculate the following: i) EPS; ii) Financial leverage and operating leverage at 100,000 units and 120,000 units.
Comment on the behaviour of operating financial leverage in relation to increase in production from 100,000 to 120,000 units. **(10 Marks)**

6 a. What is a forward contract? **(03 Marks)**

b. Explain the meaning and assumptions of CAPM model. **(07 Marks)**

c. From the following structure of a company calculate overall cost of capital using:
i) Book value weights; ii) Market value weights.

Source	Book value (Rs.)	Market value (Rs.)
Equity shares (Rs.10/share)	45,000	90,000
Retained earnings	15,000	-
Preference shares	10,000	10,000
Debentures	30,000	30,000

After tax cost of different sources of finance equity 14%, retained earnings – 18%, preference share 10%, debentures 5%. **(10 Marks)**

7 a. Write a note on stable dividend policy. **(05 Marks)**

b. Proforma cost sheet of a company provides the following particulars:
Material – 40%, Direct labour – 20%, Overheads – 20%.
The following information is also available:
i) It is proposed to maintain a level of activity of 200,000 units.
ii) Selling price in Rs.12 per unit.
iii) Raw materials are expected to remain in store for an average period of one month.
iv) Materials will be in process on an average half a month.
v) Finished goods are required to be in store on an average period of one month.
vi) Credit allowed to debtors is 2 months.
vii) Credit allowed by suppliers is one month. Estimate working capital. **(15 Marks)**

8 **CASE STUDY**

You are a financial analyst for xyz company, which is planning the invest in a project costing Rs.20 lakhs. The life of the project is five years and the estimated salvage value of the project is zero. Straight line method of depreciation is followed. The tax rate is 50%. The expected cash flows before tax are as follows:

Year	CFBT
1	400,000
2	600,000
3	800,000
4	800,000
5	10,00,000

Find out :
a. Pay back period:
b. Average rate of return
c. Net present value
d. Internal rate of return.
Cost of capital is 10%. **(20 Marks)**

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