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10MBA23

Second Semester MBA Degree Examination, June 2012

Financial Management

Time: 3 hrs. Max. Marks:100

Note: 1. ***Answer any FOUR full questions from Q.No.1 to Q.No.7.***
2. ***Question No. 8 is compulsory.***
3. ***PV and FV tables may be provided.***
4. ***Show working notes wherever necessary.***

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 are the roles of financial managers? **(03 Marks)**

b. Calculate the following:

i) If you deposit Rs.10,000 today at 6% rate of interest, in how many years will this amount double?

ii) Suppose your company currently has 5000 employees and this number is expected to grow by 5% per year. How many employees will your company have in 10 years?

iii) Phoenix limited had revenues of Rs.100 million in 2000 which increased to Rs.1000 million in 2010. What was the compound growth rate in revenues? **(07 Marks)**

c. Briefly explain the factors affecting the dividend policy. **(10 Marks)**

2 a. What do you mean by Forex market? **(03 Marks)**

b. Explain the different approaches to financing working capital requirements. **(07 Marks)**

c. The PQR company has the following capital structure in 31st March 2012:

Ordinary shares (2,00,000 shares)	₹40,00,000
10% preference shares	₹10,00,000
14% debentures	₹30,00,000
Total	₹80,00,000

The shares of the company sells for ₹20. It is expected that company will pay next year a dividend of ₹2 per shares which will grow at 7% forever. Assume 50% tax rate. You are required to:

i) Compute a weighted average cost of capital based on the existing capital structure.

ii) Compute the new weighted average cost of capital if the company raises an additional of ₹20 lakh debt by issuing 15% debentures. This would result in increasing the expected dividend to ₹3 and leave the growth rate unchanged, but the price of share will fall to ₹15 per share. **(10 Marks)**

3 a. What is capital structure? What are the major assumptions of capital structure? **(03 Marks)**

b. Explain the different types of investment evaluation techniques. **(07 Marks)**

c. Briefly explain the Indian Financial System. **(10 Marks)**

4 a. What is capital budgeting? **(03 Marks)**

b. Discuss the elements of good corporate governance. **(07 Marks)**

c. The selected financial data for X, Y and Z companies for the year ended March 31 are as follows:

Particulars	X	Y	Z
Variable expenses as a percentage of sales	66.67	75	50
Interest expenses (₹)	200	300	1000
DOL	5	6	2
DFL	3	4	2
Income tax rate	0.35	0.35	0.35

Prepare income statements for X, Y and Z companies. **(10 Marks)**

5 a. What are market value weights and book value weights? **(03 Marks)**

b. Explain the organization of finance function. **(07 Marks)**

c. The expected cash flows of a project are as follows:

Year	0	1	2	3	4	5
Cash flow	1,00,000	20,000	30,000	40,000	50,000	30,000

The cost of capital is 12%. Calculate the following:

i) Net present value

ii) Benefit cost ratio

iii) Internal rate of return

iv) Modified internal rate of return

v) Payback period **(10 Marks)**

6 a. What is value of money? **(03 Marks)**

b. Describe the SEBI guidelines on ESOP. **(07 Marks)**

c. Oriental Ltd. has currently an ordinary share capital of ₹25 lakhs, consisting of 25000 shares of ₹100 each. The management is planning to raise another ₹20 lakhs to finance major expansion programme, through one of four possible financial plans,

i) Entirely through ordinary shares

ii) ₹10 lakhs through ordinary shares and ₹10 lakhs in 8% long term loan

iii) ₹5 lakhs through ordinary shares and ₹15 lakhs through 9% loan (LT)

iv) ₹10 lakhs through ordinary shares and ₹10 lakhs through preference shares with 5% dividend.

The company's expected earnings before interest and taxes (EBIT) will be ₹8 lakhs. Assuming a corporate tax rate of 50%, determine the EPS in each alternative and comment, which alternative is best and why? **(10 Marks)**

7 a. What do you mean by CAPM? Mention any two advantages of CAPM. **(03 Marks)**

b. What are objectives of financial management? **(07 Marks)**

7 c. Your company has bought a ₹1,25,800 price of equipment 2 years ago. Its present book value is ₹87,000. It can be sold today for ₹1,25,000 (before tax). However, if kept, it will last five more years and produce expected cash revenues (net of expenses) before taxes of ₹20,000 for each of the five years. A replacement machine cost ₹1,80,000 and is expected to produce cash flows (before taxes) of ₹38,000 for each of the next five years. Straight line depreciation for 5 years can be employed for both the new and the old machine, the tax rate is 35% and the firms required rate of return is 10%. Furthermore assume that neither machine has salvage value in five years.

Determine the relevant cash flows for each alternative. **(10 Marks)**

8 ***Case study:***

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

Elements of cost	**Amount per unit (₹)**
Materials	80
Direct labour	30
Overheads	60
Total cost	170
Profit	30
Selling price	200

The following further particulars are available:

i) Raw materials are in stock on an average for one month.
ii) Raw materials are in process on an average for half a month.
iii) Finished goods are in stock on an average for one month.
iv) Credit allowed by suppliers is one month.
v) Lag in payment of wages is $1\frac{1}{2}$ weeks.
vi) Lag in payment of overheads is one month.
vii) $\frac{1}{4}^{th}$ output is sold against cash.
viii) Cash in hand and at bank is expected to be ₹25,000.
ix) Credit allowed to customers two months.

You are required to prepare a statement showing the working capital needed to finance level of activity of 1,04,000 units of production.

You may assume that production is carried on evenly throughout the year, wages and overheads accrue similarly and a time period of 4 weeks is equivalent to a month. **(20 Marks)**

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