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12MBA25

Second Semester MBA Degree Examination, June / July 2013

Financial Management

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.

Time: 3 hrs. Max. Marks:100

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

1 a. Mention any three differences between stock market and commodity market. **(03 Marks)**
b. Explain warrants and convertibles. **(07 Marks)**
c. Suppose a firm borrows Rs 10,00,000 at an interest rate of 15% and the loan is to be repaid in 5 equal installments payable at the end of each of next 5 years. Prepare loan Amortisation schedule. **(10 Marks)**

2 a. What is meant by Risk management? **(03 Marks)**
b. Explain any seven factors influencing working capital requirements of an organization. **(07 Marks)**
c. 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 percent. Assume the firm uses strait line depreciation and the same is allowed for tax purpose. The estimated cash flows before tax (CFBT) from the investment proposal are as follows :

Year	1	2	3	4	5
CFBT ₹	10,000	10,692	12,769	13,462	20,385

Find out Net present value at 10 percent discount rate. **(10 Marks)**

3 a. What are flotation costs? **(03 Marks)**
b. Describe any seven factors influencing dividend policy of an organization. **(07 Marks)**
c. "Wealth maximization objective is superior to profit maximization objective for an organization". Explain. **(10 Marks)**

4 a. What is Angel investing and Private equity? **(05 Marks)**
b. Write a note on Capital Asset Pricing Model (CAPM). **(05 Marks)**
c. From the following information, estimate working capital requirement for a level of a activity at 1,56,000 units of production.

	Per unit
Raw material	Rs 90
Direct Labour	Rs 40
Over heads	Rs 75
Total	205
Profit	60
Selling price	265

- Raw materials holding period one month ; - WIP (50% complete) conversion period 4 weeks ; - Finished goods holding period one month ; - Credit allowed by suppliers one month ; - Credit allowed to debtors 2 months ; - Lag in payment of wages 1.5 weeks ; - over heads one month.

20 percent of output sold against cash. Minimum cash balance required Rs 60,000. It is assumed that production is carried on evenly throughout the year. Time period of 4 weeks is equivalent to a month. **(10 Marks)**

5 a. A company has 10 percent perpetual debt of Rs 1,00,000. The tax rate is 35 percent. Determine after tax (kd) cost of debt capital if issued at (i) par (ii) and 10 percent premium. **(05 Marks)**

b. Elucidate the factors to be considered in planning the capital structure of an organization. **(05 Marks)**

c. Teja International is determining the cash flow for a project involving replacement of an old machine by a new machine. The old machine has a book value of Rs 8,00,000 now and it can be sold to realize a post tax salvage value of Rs 9,00,000. It has a remaining life of 5 years after which its net salvage value is expected to be Rs 2,00,000.
The new machine costs Rs 30,00,000. It is expected to fetch a net salvage value of Rs 15,00,000 after 5 years. The new machine is expected to bring a savings of Rs 6,50,000 annually in manufacturing costs (other than depreciation). The working capital required by New machine is Rs 5,00,000. The tax rate applicable to the firm is 30%. Rate of depreciation applicable to both machines is 25 percent under WDV method. Estimate cash flow of a replacement project. **(10 Marks)**

6 a. Write a note on Behavioural Finance. **(05 Marks)**

b. What will be the future value of Rs 10,000 invested for 4 years @ 12 percent? If compounded quarterly and monthly. **(05 Marks)**

c. Compute Weighted Average Cost of Capital (WACC) under each of the following three financing plans. If K_e = 15 percent K_p = 10 percent and K_d = 8 percent. **(10 Marks)**

Financing plans	Weight of equity capital	Weight of preference capital	Weight of debt capital
1	0.50	0.30	0.20
2	0.30	0.40	0.30
3	0.20	0.30	0.50

7 a. You are given an option to receive Rs. 1,00,000 at the end of each year for 5 years or to receive lumpsum of Rs 6,00,000 after five years. Which option you will prefer. If expected rate of return is 10 percent. **(05 Marks)**

b. The management of a company feels that the operating cycle is too long. Hence they want to reduce the operating cycle. As a Manager of the company, suggest ways and means of reducing the operating cycle. **(05 Marks)**

c. You are appointed as a Finance manager of a start up manufacturing company. You are expected to prepare a working capital estimates for the coming year. What information do you require from different department heads to estimate the working capital? **(05 Marks)**

d. Mr. Sridhar is appointed as a finance executive of ABC Ltd., Dr. Jeuabalan, CEO of a company call him for a discussion and shows his unhappiness over investment evaluation technique. Which the company is following at present. He feels that NPV technique, which the company is following, is not appropriate and does not consider risk and uncertainty. Which set of new technique you suggest to CEO? **(05 Marks)**

8 The selected financial data for A, B and C companies for the current year ended March 31 are as follows :

Particulars	A	B	C
Variable expenses as a percentage of sales	66.67	75	50
Interest expenses (Rs)	200	300	1000
Degree of operating leverage	5	6	6
Degree of financial leverage	3	4	2
Income tax rate	0.35	0.35	0.35

Prepare Income statements for A, B and C companies. **(20 Marks)**

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