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Second Semester MBA Degree Examination, June/July 2015
Financial Management

Time: 3 hrs.

Max. Marks:100

SECTION - A*Note : Answer any FOUR questions from Q.No.1 to Q.No.7.*

- 1 What is Venture Capital? (03 Marks)
- 2 What is WACC? How it is calculated? (03 Marks)
- 3 Give the meaning for "Capital rationing". (03 Marks)
- 4 What is Risk Management? (03 Marks)
- 5 Distinguish between gross working capital and net working capital. (03 Marks)
- 6 What do you mean by derivatives? (03 Marks)
- 7 Discuss the concept of Mergers and Acquisitions. (03 Marks)

SECTION - B*Note : Answer any FOUR questions from Q.No.1 to Q.No.7.*

- 1 Explain CAPM model in detail. (07 Marks)
- 2 Loan amount ₹ 10,00,000, rate of interest 12%, loan period 4 year. From the given information prepare loan amortization schedule. (07 Marks)
- 3 From the following data compute the duration of the operating cycle for each of the two years.

	Year 1	Year 2
Stock of raw materials	20,000	27,000
Work in progress	14,000	18,000
Finished goods stock	21,000	24,000
Purchases	96,000	1,35,000
Cost of goods sold	1,40,000	1,80,000
Sales	1,60,000	2,00,000
Debtors	32,000	50,000
Creditors	16,000	18,000

Assume 360 days per year for computational purpose.

(07 Marks)

- 4 Miss Jhanu has 4 options to choose at the time of retirement. Suggest the best option. Receiving:
 - i) 5,00,000 ₹ today.
 - ii) ₹ 10,00,000 after 5 years.
 - iii) ₹ 1,50,000 every year after 12 years.
 - iv) ₹ 75,000 every year forever.
 r = 10%. (07 Marks)

- 5 Discuss in detail the objective of financial management. (07 Marks)

- 6 Define Working capital. What are the factors influencing working capital requirements? (07 Marks)
- 7 Explain the factors affecting dividend policy. (07 Marks)

SECTION - C

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

- 1 Discuss in detail the sources of long term funds. (10 Marks)
- 2 Write a short note on Commodity markets and forex market. (10 Marks)
- 3 What is Leasing? What are the different types of leasing? (10 Marks)
- 4 Chethan Ltd has the following book value capital structure. (10 Marks)
- Equity capital (10 million shares @ 10 per share) = ₹ 100 million.
 - Preference capital 11% (1,00,000 shares, ₹ 100 per share) = ₹ 10 million.
 - Retained earnings = ₹ 120 million.
 - Debentures 13.5 % (5,00,000 debentures, ₹ 100 each) = ₹ 50 million.
 - 12% loan = ₹ 80 million.

The next expected dividend per share is ₹ 1.50. The dividend per share is expected to grow @ 7%. The market price per share is ₹ 20. Preference share, redeemable after 10 years is currently selling at for ₹ 75 per share. Debentures, redeemable after 6 years are selling for ₹ 80 per debenture. The tax rate is 50%. Calculate the weighted average cost of capital using

- i) Book value proportions and ii) Market value proportions.
- 5 You are given the following estimates and are instructed to calculate the average amount of working capital which will be required after adding 10% to your computed figure to allow for contingencies. (10 Marks)

Particulars	Amount for year
i) Average amount backed up for stocks	
Stocks of finished product	5000
Stocks of stores and materials	8000
ii) Average credit given	
Inland sales, 6 weeks credit	3,12,000
Export sales, 1.5 weeks credit	78,000
iii) Average time lag in payment of wages and other outgoings :	
Wages, 1.5 weeks	2,60,000
Stocks and materials, 1.5 months	48,000
Rent and royalties, 6 months	10,000
Clerical staff, 0.5 month	62,400
Manager 0.5 month	4,800
Miscellaneous expenses, 1.5 month	48,000

- 6 The capital structure of a company consists of an ordinary share capital of ₹ 10,00,000 (shares of ₹ 100 per value) and ₹ 10,00,000 of 10% debentures. Sales increased by 20% from 1,00,000 units to 1,20,000 units. The selling price is ₹ 10 per unit. Variable cost amount to ₹ 6 per unit and fixed expenses amount to ₹ 2,00,000. Income tax is assumed to be @ 35%.
- a. You are required to calculate :
- The percentage increase in earning per share.

- The degree of financial leverage at 1,00,000 units and 1,20,000 units.
 - The degree of operating leverage at 1,00,000 units and 1,20,000 units.
- b. Comment on the behaviour of operating and financial leverage in relations to increase of Production from 1,00,000 to 1,20,000 units. (10 Marks)
- 7 A company is considering the replacement of its existing machine which is obsolete and unable to meet the rapidly rising demand for its product. The company is faced with two alternative:
- i) To buy machine A which is similar to the existing machine which costs ₹ 25 lakhs.
 - ii) To go in machinery B which is more expensive and has much greater capacity which costs ₹ 40 lakhs.

The cash inflow from these machines are as follows :

Year	Machine A (₹ in lakhs)	Machine B (₹ in lakhs)
1	-	10
2	5	14
3	20	16
4	14	17
5	14	15

The company's cost of capital is 10%. The finance manager tries to evaluate the machine by calculating the following : i) NPV ii) Profitability Index iii) Payback period.

At the end of his calculations, however the finance manager is unable to make up his mind as to which machine to recommend. You are required to make these calculations and in the light these to advise the finance manager about the proposed investment. (10 Marks)

SECTION - D

CASE STUDY – [Compulsory]

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 ₹ 8,00,000 now and it can be sold to realize a post tax salvage value of ₹ 9,00,000. It has a remaining life of 5 years after which its net salvage value is expected to be ₹ 2,00,000.

The new machine costs ₹ 30,00,000. It is expected to fetch a net salvage value of ₹ 15,00,000 after 5 years. The new machine is expected to bring a savings of ₹ 6,50,000 annually in manufacturing costs (other than depreciation). The working capital required by new machine is ₹ 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.

(20 Marks)
