JP – 957

II Semester M.B.A. (Day) Degree Examination, June 2008
(2007-2008 Scheme)
MANAGEMENT
2.2 : Financial Management

Time : 3 Hours   Max. Marks : 75

SECTION – A

1. Answer **any six** of the following questions. **Each** question carries **two** marks. **(6×2=12)**

   a) Differentiate between Money market and Capital market.
   b) What is concentration banking ?
   c) What is conservative approach to working capital financing ?
   d) What is trading on equity ?
   e) What do you mean by stock split ?
   f) Define internal rate of return.
   g) What is optimal capital structure ?
   h) What is CAPM ?
   i) What is financial lease ?

SECTION – B

Answer **any three** of the following questions. **Each** question carries **eight** marks. **(3×8=24)**

2. Explain the 'Net Income' approach to the theory of capital structure.
3. Explain any five methods of ranking the investment proposals that are available to firm.
4. Calculate the operating leverage, financial leverage and combined leverage from the following data under situation – I and II and financial plans A and B.

   Installed capacity — 40,000 units
   Actual production and sales — 75% of capacity
   Selling price — Rs. 30 P.U.
   Variable cost — Rs. 15 P.U.
   Fixed cost : under situation – I = 1,50,000
   under situation – II = 2,00,000

   Capital structure :

Financial plan	**A**	**B**
Equity	10,00,000	15,00,000
Debt (rate of Interest 20%)	10,00,000	5,00,000

P.T.O.

5. Varsha Ltd. wishes to raise additional finance of Rs. 10 lakhs for meeting its investment plans. It has Rs. 2,10,000 in the form of retained earnings available for investment purposes.The following are the further details.

a) Debt/Equity mix	30%/70%
b) Cost of debt	
up to 1,80,000	10% (before tax)
beyond Rs. 1,80,000	16% (before tax)
c) Earnings per share	Rs. 4
d) Dividend payout	50%
e) Expected growth rate in dividend	10%
f) Current market price per share	Rs. 44
g) Tax rate	50%

You are required.

a) To determine the pattern for raising additional finance.

b) Compute the weighted average cost of capital.

6. The following are the details regarding the operation of a firm during a period of 12 months.

Sales	12,00,000
Selling price per unit	10
Variable cost per unit	7
Total cost per unit	9

Credit period allowed to customers – one month.

The firm is considering a proposal for more liberal credit by increasing the average collection period from one month to two months. This relaxation is expected to increase sales by 25%.

You are required to advise the firm regarding adopting new credit policy, presuming that the firm's required rate of return on investment is 25%.

SECTION – C

Answer **any two** of the following questions. **Each** question carries **12** marks. (2×12=24)

7. Explain the Walter's model on corporate dividend policy with assumptions.

8. A proforma cost sheet of a company provides the following particulars.

Material	40%
Direct labour	20%
Over heads	20%

The following information is also available.

a) It is proposed to maintain a level of activity of 2,00,000. Units.

b) Selling price is Rs. 12 per unit.

c) Raw materials are expected to remain in stores for an average period of one month.

d) Materials will be in process on an average half-a-month.

e) Finished goods are required to be in stock for an average period of one month.

f) Credit allowed to debtors is two months.

g) Credit allowed by supplier's is one month.
Estimate working capital requirments.

9. The Trisha 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 2,500 debentures at Rs. 100 each at 8% interest.

iii) The company may issue 25,000 equity shares at Rs. 100 per share and 2,500 preference shares at Rs. 100 per share bearing 8% rate of dividend.

If the company's earnings before interest and taxes are 1,00,000, Rs. 2,00,000 and Rs. 4,00,000, what are the earnings per share under each of the three financial plans. Which alternative would you recommend and why ? Assume corporate tax to be 50%.

SECTION – D

Case study : **15**

10. Sayhadri and Co, is considering the following investment projects.

Project	Cash out flow (Rs. in Crores)	Cash in flow (Rs. in Crores)		
		First Year	Second Year	Third Year
Cauvery	1000	600	700	800
Krishna	2000	800	1000	500
Narmada	3000	1000	1100	1800

a) Rank the projects according to each of the following methods.

a) Pay back period

b) Net present value at 12% cost of capital

c) Internal rate of return.

b) Assuming the projects are independent, which one should be accepted ? If the projects are mutually exclusive, which project is the best ?