II Semester M.B.A. (Day) Degree Examination, June/July 2012
(2007-08 Scheme)
MANAGEMENT
Paper – 2.2 : Financial Management

Time : 3 Hours Max. Marks : 75

SECTION – A **(2×6=12)**

1. Answer **any six** of the following questions. **Each** question carries **2** marks.
   a) What is profit maximization ?
   b) What is ageing schedule ?
   c) What is arbitrage ?
   d) What is financial leverage ?
   e) Define I.R.R.
   f) Define time value of money.
   g) What is stock-split ?
   h) What is cash float ?

SECTION – B **(8×3=24)**

Answer **any three** of the following questions. **Each** question carries **eight** marks.

2. Discuss the role of finance manager.
3. Explain different sources of working capital finance.
4. The following information is available in respect of rate of return on investment (r), the capitalisation rate (Ke), and EPS (E) of a company.

   Rate of Return on Investment (r) = 12%, 10% and 8%

   Ke = 10 percent.

   EPS (E) = Rs. 20

   Determine the value of shares according to Gorden's model for the following payout ratios :

   0%, 25%, 50%, 75% and 100%

5. Two companies A and B belongs to the same risk class and both the firms expected EBIT is Rs. 22.5 lakhs. The two firms are identical in every respect expect that firm A has Rs. 15 lakhs, 10 percent debentures.The equity capitalisation rate of firm A is higher (18 percent) than that of firm B (15 percent). Show that the arbitrage process by which an investor who holds 10 percent shares of firm B will be benefited by investing in firm A.

6. A firm sells its products for Rs. 100 per unit, has variable operating cost of Rs. 50 per unit and fixed operating cost of Rs. 50,000 per year. Show the various levels of EBIT that would result from sale of (a) 1000 units, (b) 2000 units and (c) 3000 units.

SECTION – C **(12×2=24)**

Answer **any two** of the following. **Each** question carries **12** marks.

7. Discuss the factors determining capital structure.

8. A Company's expected annual EBIT is Rs. 60,000. The company has Rs. 2,00,000, 10 percent debentures. The overall capitalisation rate of the company is 12.5 percent. The company has two new capital structures for consideration.

   a) To raise the amount of debentures by Rs. 1,00,000 and use the proceeds to retire the equity shares.

   b) To reduce the amount of debentures by Rs. 1,00,000 and a fresh issue of equity shares is made to retire the debentures.

   Calculate the effects of change in Capital structure on value of the firm and equity capitalisation rate according to NOI approach.

9. A Proforma Cost of sheet of a company provides the following particulars :

Elements of Costs	Amount per unit (Rs.)
Raw Material	80
Direct Labour	30
Overheads	60
Total	170
Profit	30
Selling Price	200

The following further particulars are available :

Raw materials are in stock on average on month. Materials are in process, on average, half a month. Finished goods are in stock on average one month.

Credit allowed by supplies is one month. Credit allowed to debtors is two months. Lag in payment of wages is one and half weeks (1 ½) weeks. Lag in payment of overhead expenses is one month.

One-fourth of the output is sold against cash. Cash on hand and at bank is expected to be Rs. 25,000.

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

You may assume that production is carried on evenly through-out the year, wages and overheads accrue similarly and a time period of 4 weeks is equivalent to a month.

SECTION – D **(1×15=15)**

Note : Answer the following (**Compulsory**). This question carries **15** marks.

10. Bright Metals Ltd. are considering two different investment proposals. The details are as under.

	Proposal A Rs.	Proposal B Rs.
Investment Cost	9,500	20,000
Estimated cash inflows, end of year		
1	4,000	8,000
2	4,000	8,000
3	4,500	12,000

a) Suggest the most attractive proposal on the basis of Net present value method considering future incomes are discounted at 12 %.

b) What is the ranking of the above proposals based on Payback, ARR and profitability index ?

c) Also find the Internal Rate of Return of two proposals.

d) Which of the two proposals would you recommend and why ?

e) Would your answer in (d) above be different if the cost of capital changes to 15% ?