II Semester M.B.A. Degree Examination, July/August 2014
(2007– 08 Scheme)
MANAGEMENT
Paper – 2.2 : Financial Management

Time : 3 Hours

Max. Marks :75

SECTION – A

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

   a) What are the goals of Financial Management ?

   b) What is benefit cost ratio ?

   c) Explain the trading on Equity ?

   d) What are the floatation costs ?

   e) What is permanent working capital ?

   f) What is credit policy ?

   g) What is lock box system ?

   h) What is stock split ?

SECTION – B

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

2. What is working capital policy ? Explain the different types of working capital policies.

3. Define cost of capital. Explain its significance in financial decision making.

P.T.O.

4. From following details of XYZ Ltd. prepare income statement :

   Operating Leverage : 3

   Financial Leverage : 2

   Interest charges per annum : 40 lakhs

   Corporate tax rate : 40%

   Variable cost as percentage of sales – 60%

5. ABC Ltd. has paid up equity capital 600000 equity shares of Rs. 10 each. The current market price of the share is Rs. 26. During the current year, the company has declared a dividend of Rs. 4 per share. The company has also previously issued 14% preference shares of Rs. 10 each aggregating Rs. 30 lakhs and 13% 50,000 debentures of Rs. 100 each. The company's corporate tax rate is at 40%, the growth rate of dividends on equity shares is expected at 6%. In case of preference shares the company has received only 95% of the face value of shares after deducting issue expenses. Calculate weighted average cost of capital of the company.

6. A group of new customers with 10% risk of non payment wishes to establish business connections with you. This group would require one and a half month credit and is likely to increase your sales in Rs. 60000 p.a. production, administration and selling costs amount to 80% of sales, you are required to pay income tax @ 50%. Should you accept the offer if the required rate of return is 40% (after tax).

   Also state the degree of risk of non-payment that you would be willing to assume if the required rate of return (after tax) were

   a) 30% b) 20%

SECTION – C

Answer **any two** of the following. **Each** question carries **12** marks. **(2x12=24)**

7. Why dividend policy is important for a company ? Discuss the various determinants of a dividend policy, in a company.

8. Malhotra company plans to sell 48000 units next year. The expected cost of goods sold is as follows :

	Unit cost (Rs.)
Raw material cost	60
Manufacturing expenses	40
Selling Expenses	20
Total	**120**

The Selling price per unit is Rs. 160. Monthly production can be taken as 4000 units. The duration of operating cycle of various stages is expected to be as follows :

Raw material stage	– 1 month
Work in progress stage	– 2 months
Finished goods stage	– 1 month
Debtors stage	– 2 months

Calculate the investment in various current assets and estimate the working capital requirement, if the desired cash balance is 5% of working capital requirement.

9. YESHAS Ltd. are thinking of investing in a project costing Rs. 40 lakhs. The life of the project is 5 year and estimated salvage value is zero. Straight Line Method of depreciation is followed. The tax rate is 40%. The expected profit before depreciation and tax are as follows :

Year	1	2	3	4	5
P B D T (Rs. in lakhs)	8	12	16	16	20

You are required to calculate the

a) Pay Back Period

b) A. R. R.

c) Net Present Value

d) Internal Rate of Return

SECTION – D

10. **Case Study :** **(1×15=15)**

The existing capital structure of ABC Ltd. is as follows :

Equity shares of Rs. 100 each	Rs. 40,00,000
Retained earnings	Rs. 10,00,000
9% Preference Shares	Rs. 25,00,000
7% Debentures	Rs. 25,00,000

Company earns a return of 12% and the tax rate is 40%.

Company wants to raise Rs. 50,00,000 for its expansion project for which it is considering the following alternatives.

i) Issue of 50,000 equity shares

ii) Issue of 10% preference shares

iii) Issue of 9% debentures.

Projected that price earning ratios in case of equity, preference and debenture financing 20, 17 and 16 respectively which alternative would you consider to be the best ? Give reasons.