PG – 922

II Semester M.B.A. Degree Examination, July 2016
(CBCS)
MANAGEMENT
2.5 : Financial Management

Time : 3 Hours Max. Marks : 70

SECTION – A

Answer **any five** of the following questions. **Each** question carries **five** marks. **(5×5=25)**

1. Explain the various types of decisions which are to taken by financial manager in the emerging business scenario.

2. Discuss any five factors relevant in determining capital structure.

3. Why dividend policy is important for a company ? Explain.

4. A company has Rs. 20,00,000 6% Debentures outstanding today, which will be redeemed after 5 years. For redemption the company established a sinking fund and its investments earn interest @ 10% p.a. What annual payment must the firm make to ensure that the needed Rs. 20,00,000 available on the designated date.

5. The capital structure of Bombay Traders Ltd. as on 31-3-2015 is as follows

	Rs. in crores
Equity capital : 100 lakh equity shares of Rs. 10 each	10
Retained Earnings	2
14% debentures	3

For the year ended 31-3-2015 the company has paid a equity dividend at 20% and the growth rate is 5% every year. The equity shares are traded at Rs. 80 per share in the stock exchange. Tax rate applicable to the company is 40%. Calculate the current weighted average cost of capital.

P.T.O.

6. The following details of ABC Ltd. for the year ended 31-3-2015 are furnished.

Operating leverage	3
Financial leverage	2
Interest charges p.a.	Rs. 20 lakhs
Corporate tax	40%
Variable cost as a % of sales	60%

Prepare the Income Statement of the company.

7. A company sells 40,000 units of its product per year @ Rs. 35 per unit. The variable cost per unit is Rs. 28. The average collection period is 60 days. Bad debt losses are 3% on sales and the collection charges amount to Rs. 15,000.

The company is considering the proposal to follow stricter collection policy which would bring down bad debts to 1% of sales and average collection period to 45 days. It would however, reduce the sales volume by 1000 units and increase the collection expenses to Rs. 25,000.

The company requires a rate of return of 20% would you recommend the adoption of the new credit policy ?

SECTION – B

Answer **any three** of the following questions. **Each** questions carries **ten** marks. **(3x10=30)**

8. What is working capital policy ? Explain the different types of working capital policies of the business firm.

9. "Walter's model asserts that retentions influence stock price only through their effect on future dividends" – Discuss.

10. XYZ Ltd. is considering three financing plans.

Financial Plan	**Equity**	**Debt**	**Preference**
A	100%	–	–
B	50%	50%	–
C	50%	–	50%

Total funds to be raised	Rs. 200 crores
Rate of Interest on debt	12%
Corporate tax rate	35%
Dividend on preference shares	9%
Face value of equity share	Rs. 10 each. These shares will be issued at a premium of Rs. 10 per share
Expected E.B.I.T	Rs. 80 crore

Determine :

i) E.P.S. under each plan

ii) Indifference points between financial plans A and B and A and C.

11. Capro industries plans an investment of Rs. 75,000 in a new machinery that would produce inflow of Rs. 25,000 every year for 5 years. The representative of another equipment manufacturer presents an alternative proposal. By investing Rs. 1,60,000 in his company's equipment Capro industries can obtain a cash inflow of Rs. 50,000 every year for five years. In future, an investment of this type can be expected to yield a discounted rate of return of 12%.

You are required to find :

a) Which alternative is more attractive if a discounted rate of 12% is expected ?

b) The discounted rate of return on investment alternatives.

c) Discounted rate of return on incremental investment.

SECTION – C

12. Case study – **Compulsory.** 15

XYZ Ltd. is presently operating at 60% level producing 36000 units and proposes to increase capacity utilization in the coming year $33\frac{1}{3}$% over the existing level of production. The following data has been supplied.

a) The expected ratio's of cost to selling price are :

Raw material	–	40%
Direct wages	–	20%
Overheads	–	20%

b) Selling price per unit Rs. 15.

c) Raw materials will remain in stores for 1 month. Material will remain in process for further one month.

d) Suppliers grant 3 months credit to the company and debtors are allowed 2 months credit.

e) Finished goods remain in godown for one month.

f) Lag in wages and overhead payment is one month.

Prepare a projected profitability statement and the working capital requirement at the new level, assuming that a minimum cash balance of Rs. 50,000 has to be maintained.