II Sem. M.B.A. (Day/Eve.) Examination, July/Aug. 2005
(Updated Scheme)
MANAGEMENT
Paper – 2.2 : Financial Management

Time: 3 Hours Max. Marks: 75

SECTION – A

Answer **any six** questions : **(6×2=12)**

1. a) What is ageing schedule ?
   b) What is Securitisation ?
   c) What is Internal rate of return ?
   d) What is stock dividend ?
   e) What is financial leverage ?
   f) What is Just-in-time Management ?
   g) What is CAPM ?
   h) What is weighted average cost of capital ?

SECTION – B

Answer **any four** questions : **(4×5=20)**

2. What are the factors that determine working capital requirements of an organization ?

3. A company has raised a loan of Rs. 5,00,000 from a financial institution at 8% p.a. rate of interest. The amount has to be paid back in 5 equal annual instalments. What shall be the size of instalment ?

4. A project cost Rs. 2,00,000 and is expected to generate cash inflows of Rs. 40,000, 65,000, 80,000 and Rs. 69,000 at the end of each year for next four years. Calculate, N.P.V and I.R.R. of the project.

5. Explain Net Operating Income approach with respect to capital structure.

6. A company presently pays a dividend of Rs. 45. This dividend is expected to grow at a 20 percent rate for 5 years and at 10 percent per annum thereafter . The present market price per share is Rs. 900. Using a dividend discount model approach to estimating capital costs, what is the company's expected or required return on equity ?

7. What are the factors that influence credit policy of the firm ?

SECTION – C

Answer **any three** : **(3×10=30**

8. A company currently has 100,000 shares of common stock outstanding with a market price of Rs. 2,600 per share. It has Rs. 100 million in 6 percent debt. The company is considering a Rs. 150 million expansion program that it can finance with

   1) All common stock at Rs. 2,600 a share

   2) Straight bonds at 8 percent interest

   3) Preferred stock at 7 percent, or

   4) Half common stock at Rs. 2,600 per share and half 8 percent bonds.

      a) For a hypothetical EBIT level of Rs. 50 million after the expansion program, calculate the earnings per share for each of the alternative methods of financing. Assume a corporate tax rate of 30 percent.

      b) Construct an EBIT-EPS chart. What are the indifference points between alternatives ? What is your interpretations of them ?

9. What do you mean by venture capital ? What are the different forms in which venture capital is provided ? What are the main characteristics of the venture capital undertakings ? Explain.

10. There is a strong view prevalent among financial experts that irrelevant hypothesis underlying the M.M. Theory of dividend distribution is outdated and unsuited to present conditions. Do you agree with this view ? Discuss.

11. The capital structure of ABC Ltd. consists of an ordinary share capital of Rs. 20,00,000 (Rs. 100 par value) and Rs. 10,00,000 of 10% debentures. Sales increased by 20% from 100000 units to 120000 units. The selling price is Rs. 10 per unit, variable cost amount to Rs. 6 per unit and fixed expenses amount to Rs. 2,00,000. The tax rate is 40%.

    You are required to calculate the following :

    a) The degree of financial leverage and operating leverage at 100000 and 120000 units

    b) Percentage of increase in EPS.

    c) Comment on the behaviour of operating and financial leverages in relation to increase of production from 100000 units to 120000 units.

12. What are the sources of long-term finance commonly used by firms in India ? Explain ways in which a company may raise capital in the primary market.

SECTION – D

Case study : **(1×13=13)**

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

Elements of cost :

Material	40%
Direct labour	20%
Over heads	20%

The following further particulars are available.

a) It is proposed to maintain a level of activity of 200000 units.

b) Selling price 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 averages 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 suppliers is one month.

You are required to prepare a statement of working capital requirements, if the desired cash balance is Rs. 2,00,000.