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.

PS – 607

II Semester M.B.A. (Day/Evening) Degree Examination, June/July 2007
(Updated Scheme)
MANAGEMENT
Paper 2.2 : Financial Management

Time : 3 Hours   Max. Marks : 75

SECTION – A

1. Answer **any six** of the following : **(6×2=12)**
   a) State the arguments against 'profit maximization' as a goal of financial management.
   b) What is Venture Capital Financing ?
   c) An investor has invested in the shares of ABC Ltd., which expects no growth in dividends. ABC Ltd., has paid a dividend of Rs. 3 per share. If the required rate of return is 14 per cent, what would be the value of the share ?
   d) An investor deposits Rs. 1,000 in a saving institution. Each payment is made at the end of the year. If the payments deposited earn 6% interest compounded annually, how much amount will he receive at the end of 10 years ?
   e) List the methods of measuring and evaluating 'risk in capital budgeting'.
   f) Name the various floats, which necessitates 'management of cash'.
   g) List any six factors influencing the requirement of working capital.
   h) What is the proposition of MM Hypothesis in the context of Dividend Decisions ?
   i) What is private placement ?

SECTION – B

Answer **any four** of the following : **(4×5=20)**

2. Explain the proposition made by Gordon regarding dividend policy.
3. Explain the Acceptability Criterion under various techniques of Capital Budgeting.
4. A company issues a new 15% debentures of Rs. 1,000 face value to be redeemed after 10 years. The debentures are expected to be sold at 5% discount. It will also involve flotation cost of 5%. The company's tax rate is 30%. What would be the cost of debt ?
5. AB Limited provides you with the following figures :

Profits before Interest and tax	Rs. 3,00,000
Interest on Debentures @ 12%	Rs. 60,000
Tax Rate	50%

P.T.O.

Number of Equity Shares (Rs. 10 each)	40,000
Earning per Share	Rs. 3
Ruling price in the market	Rs. 30
Price/Earnings Ratio	10

The company has undistributed reserves of Rs. 6,00,000. The company needs Rs. 2,00,000 for expansion. This amount will earn at the same rate as funds already employed. You are informed that a debt equity ratio i.e., debt/(debt + equity) higher than 35% will push the P/E ratio down to 8 and raise the interest rate on additional amount borrowed to 14%. You are required to ascertain the probable price of the share :

a) If the additional funds are raised as debt; and

b) If the amount is raised by issuing equity shares.

6. The Go-Go Ltd's most recent balance sheet is as follows :

Liabilities	Rs.	Assets	Rs.
Equity Capital (Rs. 10 per share)	60,000	Net Fixed Assets	1,50,000
10% Long-term debt	80,000	Current Assets	50,000
Retained Earnings	20,000		
Current Liabilities	40,000		
Total	**2,00,000**	**Total**	**2,00,000**

The company's total assets turnover ratio is 3, its fixed operating costs are Rs. 1,00,000 and its variable operating cost ratio is 40%. The income tax rate is 50%.

a) Calculate for the company, all the three types of leverages.

b) Determine the likely level of EBIT if the EPS is

i) Re. 1 ii) Rs. 3 iii) Nil

7. A firm has current sales of Rs. 2,56,48,750. The firm has unutilized capacity. In order to boost its sales, it is considering a relaxation in its credit policy. The proposed terms of credit will be 60 days credit against the present policy of 45 days. As a result, the bad debts will increase from 1.5% to 2% of sales. The firm's sales are expected to increase by 10%. The variable operating costs are 72% of the sales. The firm's corporate tax rate is 35% and it requires an after tax return of 15% on its investments. Should the firm change its credit period ?

SECTION – C

Answer **any three** of the following : **(3×10=30)**

8. Explain the factors influencing Capital Structure Decisions of a Business Enterprise.

9. Explain the various sources of short-term finance for a business enterprise, evaluating the pros and cons of each.

10. You are the management accountant of Ganesha Ltd. The following information is made available to you :

    a) Budgeted production – 6,00,000 units.

    b) Details of stock holding: Raw materials – 2 months; Work-in-progress – 0.5 month; Finished goods – 1 month.

    c) Credit granted by customers – 2 months, credit availed from suppliers – 1 month.

    d) Minimum cash balance required at all times – Rs. 25,000.

    e) Cost structure of the product is as under :

	Rs.
Raw materials	10.00
Direct labour	2.50
Overheads (of which depreciation – Re. 0.25)	7.50
Total costs	20.00
Profit margin	5.00
Selling Price	25.00

From the above you are required to forecast the working capital requirements of the company.

11. Three companies A, B and C are in the same business and hence have similar operating risks. However, the capital structure of each firm is different.

	A	B	C
Equity Share Capital (Face Value of Rs. 10 per share) Rs.	4,00,000	2,50,000	5,00,000
Market Value per share (Rs.)	15	20	12
Dividend per share (Rs.)	2.70	4	2.88
Debentures (Rs.)	Nil	1,00,000	2,50,000
Market Value per debenture (Rs.)		125	80
Interest rate		10	8

Assume the current levels of dividends are generally expected to continue indefinitely and the income-tax rate is 30 per cent. You are required to compute the weighted average cost of capital of each company.

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)**

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

SECTION – B

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

3 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.

8

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.

12. 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.

12. ii) The company may issue 25,000 equity shares at Rs. 100 each and 2,5000 debentures at Rs. 100 each at 8% interest.

iii) The company may issue 25,000 equity shares at Rs. 100 per share and 2,5000 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 ?

II Semester M.B.A. (Day) Degree Examination, June 2009
(2007–08 Scheme)
Paper – 2.2 : FINANCIAL MANAGEMENT

Time : 3 Hours Max. Marks : 75

SECTION – A

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

   a) What is profit maximization ?

   b) What is conservative working capital policy ?

   c) What is specific cost of capital ?

   d) What is optimal capital structure ?

   e) What is operating leverage ?

   f) What is internal rate of return ?

   g) What is rights issue ?

   h) What stable dividend policy ?

   i) State the assumptions of Walter model on dividend policy.

SECTION – B

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

2. What are different alternative methods of evaluating investment proposals ?

3. What are the factors which influence the dividend policy of a company ?

4. Alfa Ltd., with net operating earnings of Rs. 3 lakhs is attempting to evaluate a number of capital structures given below. Which of the capital structure will you recommend and why ?

Capital Structure	Debit in Capital Structure	Cost of Debt	Cost of Equity
1	Rs. 3,00,000	10%	12%
2	Rs. 4,00,000	10%	12.5%
3	Rs. 5,00,000	11%	13.5%

5. A firm sells its products for Rs. 10 per unit of which Rs. 7 represents variable costs. Current annual sales are Rs. 12,00,000 entirely on credit. The firm is considering a more liberal extension of credit which will result in slowing process of average collection period from one month to two months. This relaxation in credit terms is expected to produce a 25% increase in sales i.e. Rs. 15,00,000. Advise the firm regarding adoption of new credit policy assuming that the firm's required rate of investment is 25%.

6. ABC Ltd., sells its product at gross profit of 20% on sales. The following information extracted from Company's annual accounts for the year ended 31-3-2009 :

		Rs.
Sales at 3 months credit	:	40,00,000
Raw materials	:	12,00,000
Wages paid (15 days in arrears)	:	9,60,000
Manufacturing expenses (paid one month in arrears)	:	12,00,000
Administration expenses (paid one month in arrears)	:	4,80,000
Sales promotion expenses payable half year in advance	:	2,00,000

The company enjoys one month credit from suppliers of raw materials and maintains two months stock of raw materials and half month finished goods stock. Cash balance is Rs. 1,00,000. Find out net working capital requirements for the company.

SECTION – C

wer **any two** of the following questions. **Each** question carries **twelve** marks.

(2×12=24)

Explain the determinants of working capital.

Alpha Ltd. has an average selling price of Rs. 20 per unit. Its variable costs are Rs. 14 and fixed costs are Rs. 3,40,000. All its assets are financed by equity funds. It pays 35% tax on its income. Gama Ltd. is identical to Alpha Ltd., in all respects but its assets are financed by 50 percent by equity capital and 50 percent by debt, the interest on which amounts to Rs. 40,000.

Determine the degree of operating, financial and combined leverage at 70,000 units sales volume for both the firms and interpret the results.

Suresh Confectionery Ltd., is contemplating the purchase of a machinery. Two machines, A and B are available in the market each costing Rs. 5,00,000. Both have equal life of 5 years. Earnings after taxation are expected to be as under :

Cash flows (After taxation)

Year	Machine A	Machine B
1	Rs. 1,50,000	Rs. 50,000
2	Rs. 2,00,000	Rs. 1,50,000
3	Rs. 2,50,000	Rs. 2,00,000
4	Rs. 1,50,000	Rs. 3,00,000
5	Rs. 1,00,000	Rs. 2,00,000

Indicate which machine will be more profitable investment using the NPV and IRR methods assuming 10% rate of discount.

SECTION – D

(Compulsory) **(1×15=15)**

10. Servex company has the following capital structure as on 31st March 2008 :

Equity capital 2,00,000 shares	Rs. 40,00,000
10% Preference shares	Rs. 10,00,000
14% Debentures	Rs. 30,00,000
	Rs. 80,00,000

The equity shares of the company sells at Rs. 20. It is expected that the company will pay next year a dividend of Rs. 2 per share which will grow at 7 percent for ever. Assume 35% tax rate. Your are required to :

a) Compute a weighted average cost of capital based on the existing capital structure.

b) Compute a new weighted average cost of capital if the company raises an additional Rs. 20,00,000 debt by issuing 15% debentures. This would result in increasing the expected dividend to Rs. 3 and leave the growth rate unchanged, but the price of the equity share will fall to Rs. 15 per share.

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II Semester M.B.A. (Day) Degree Examination, June/July 2010
(2007-08 Scheme)
2.2 : FINANCIAL MANAGEMENT

Time : 3 Hours Max. Marks : 75

SECTION – A

1. Answer **any six** from the following : (6×2=12)

   a) Define IRR.

   b) What is operating leverage ?

   c) Define optimal capital structure.

   d) What is Gross Working Capital ?

   e) What is time value of money ?

   f) What is bonus shares ?

   g) What is the Gordon's formula for dividend ?

   h) What do you mean by personal leverage ?

SECTION – B

Answer **any three** of the following : (3×8=24)

2. What are the factors which influence the planning of capital structure ?

3. Briefly explain the Walter model of dividend policy.

4. 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 of credit and is likely to increase your sales by 60,000 p.a. Production, administrative and selling expenses 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 :

   1) 30% 2) 20%

5. XYZ Company has debentures outstanding with 5 years left before maturity. The debentures are currently selling for Rs. 90 (face value is 100 Rs.). The debentures are to be redeemed at 5% premium. The interest is paid annually at a rate of interest of 12%. The firm's tax rate is 35%. Calculate Kd.

6 The Modern Chemicals Ltd. requires Rs. 25,00,000 for a new plant. This plant is expected to yield earnings before interest and taxes of Rs. 5,00,000. While deciding about the financial plan, the company considers the objective of maximising earnings per share. It has three alternatives to finance the project – by raising debt of Rs. 2,50,000 or Rs. 10,00,000 or Rs. 15,00,000 and the balance, in each case, by issuing equity shares. The company's share is currently selling at Rs. 150, but is expected to decline to Rs. 125 in case the funds are borrowed in excess of Rs. 10,00,000. The funds can be borrowed at the rate of 10% upto Rs. 2,50,000, at 15% over Rs. 2,50,000 and upto Rs. 10,00,000 and at 20% over Rs. 10,00,000. The tax rate applicable to the company is 50%. Which form of financing should the company choose ?

SECTION – C

Answer **any two** of the following : **(2×12=24)**

7. Write short notes on :

   a) Credit management

   b) Risk analysis in capital budgeting

   c) Financial leverage.

8. Zenith Industries Ltd. are thinking of investing in a project costing Rs. 20 lakhs. The life of the project is five years and the estimated salvage value of the project is zero. Straight line method of charging depreciation is followed. The tax rate is 50%. The expected cash flows before tax are as follows :

Year	1	2	3	4	5
Estimated cash flow before depreciation and tax (Rs. lakhs)	4	6	8	8	10

You are required to determine the :

i) Payback Period for the investment,

ii) Average Rate of Return on the investment,

iii) Benefit-Cost Ratio.

9. The ZBB Ltd. needs Rs. 5,00,000 for construction of a new plant. The following three financial plans are feasible :

i) The company may issue 50,000 equity shares at Rs. 10 per share.

ii) The company may issue 25,000 equity shares at Rs. 10 per share and 2,500 debentures of Rs. 100 denomination bearing 8% rate of interest.

iii) The company may issue 25,000 equity shares at Rs. 10 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 Rs. 10,000, Rs. 20,000, Rs. 40,000, Rs. 60,000 and Rs. 1,00,000, what are the earnings per share under each of the three financial plans ? Which alternative would you recommend and why ? Assume corporate tax rate to be 50%.

SECTION – D

10. **Compulsory :** **(1×15=15)**

Company is considering which of two mutually exclusive projects it should undertake. The Finance Director think that the project with the higher NPV should be chosen whereas the Managing Director thinks that the one with the higher IRR should be undertaken especially as both projects have the same initial outlay and length of life. The company anticipates a cost of capital of 10% and the net after-tax cash flows of the projects are as follows :

(Rs. '000)

Year	0	1	2	3	4	5
Cash Flows :						
Project X	(200)	35	80	90	75	20
Project Y	(200)	218	10	10	4	3

Required :

a) Calculate the NPV and IRR of each project.

b) State, with reasons, which project you would recommend.

c) Explain the inconsistency in the ranking of the two projects.

The discount factors are as follows :

Year	0	1	2	3	4	5
Discount Factors : (10%)	1	0.91	0.83	0.75	0.68	0.62
(20%)	1	0.83	0.69	0.58	0.48	0.41

PG – 002

II Semester M.B.A. (Day) Degree Examination, July 2011
(2007-08 Scheme)
MANAGEMENT
Paper – 2.2 : Financial Management

Time : 3 Hours Max. Marks : 75

***Instructions** : Answer all Sections. Marks are indicated against each Section.*

SECTION – A **(6×2=12)**

1. Answer **any six** of the following questions. **Each** question carries **two** marks.

   a) What do you understand by Wealth Maximisation ?

   b) Differentiate between Compounding and Discounting.

   c) Define cost of capital.

   d) State the objectives of Inventory Management.

   e) State the sources of working capital financing.

   f) Define combined leverage.

   g) What is Pay Back Period ?

   h) What do you mean by Capital Rationing ?

   i) What is rights issue ?

SECTION – B **(3×8=24)**

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

2. Discuss about the Modigliani-Millers Approach to capital structure theory with all assumptions assumed by them.

3. What is meant by optimum capital structure ? Discuss the basic qualities which a sound capital structure should possess.

4. X Company Ltd. belongs to a risk class for which the approximate capitalization rate is 10 per cent. It currently has an outstanding 30,000 shares, which are selling in market at Rs. 80. The company is expecting a net income of Rs. 4,00,000 and it has a profitable investment project that cost Rs. 6,00,000. The company is interesting to declare a dividend of Rs. 4 per share at the end of the financial year. Show that under MM hypothesis, the payment of dividend does not affect the value of the firm.

P.T.O.

5. ABC Company's recent Balance Sheet is as follows :

Balance Sheet as on 31.03.2011

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Equity share capital		Net Fixed Assets	1,50,000
(Rs. 10 Per Share)	60,000	Current Assets	50,000
10% Long-term debt	80,000		
Retained earnings	20,000		
Current liabilities	40,000		
Total	**2,00,000**	**Total**	**2,00,000**

The company's total assets turnover ratio is 3, its fixed operating costs are Rs. 1,00,000 and its variable operating costs ratio is 40 percent. The income tax rate is 50 percent.

a) Calculate all the three types of leverage.

b) Determine the likely level of EBIT if EPS is (i) Re.1, (ii) Rs. 3 and (iii) zero.

6. ABC Ltd is considering the revision of its credit policy with a view to increasing its sales and profits. Currently all its sales are on credit and the customers are given one month's time to settle the dues. It has a contribution of 40% on sales and it can raise additional funds at a cost of 20% per annum. The marketing director of the company has given the following options with draft estimates for consideration.

Particulars	Current Position	Option -I	Option-II	Option-III
Sales (Rs. lakhs)	200	210	220	250
Credit period (months)	1	1.5	2	3
Bad debts (% of sales)	2	2.5	3	5
Cost and credit administration (Rs. Lakhs)	1.20	1.30	1.50	3.00

Advice the company to take right decision.

SECTION – C **(2×12=24)**

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

7. State the different forms of dividend. What factors a company would in general consider before it takes a decision on dividends ?

8. Management of XY Ltd. seeks your assistance on assessing the working capital requirements for an activity level of 1,00,000 units of output for the year 2011. The cost details of the product are as follows.

Particulars	**Cost per unit (Rs.)**
Raw materials	20
Direct Labour	5
Overheads	15
Total Cost	**40**
Profit	10
Selling price	**50**

The other details are :

a) In order to ensure smooth flow of production, two months raw material inventory is to be held in the stores.

b) Finished goods remain in stores for one month.

c) Credit allowed for purchase of raw material is one month.

d) Credit allowed to customers is two months.

e) Cash balance to be maintained is Rs. 25,000

f) Assuming that the product process is uninterrupted and even during the year.

g) Lag in payment of overheads 1 month.

Compute the amount of working capital required for the given level of activity.

9. One project of XYZ Ltd is doing poorly and is being considered for replacement. Three mutually exclusive projects A, B and C have been proposed. The projects are expected to require Rs. 2,00,000 each and have an estimated life of 5 years, 4 years and 3 years respectively, and have no salvage value. The company's required rate of return is 10 per cent. The anticipated cash inflows after taxes for the three projects are as follows :

Year	Cash Inflows after Taxes		
	Project A (Rs.)	Project B (Rs.)	Project C (Rs.)
1	50,000	80,000	1,00,000
2	50,000	80,000	1,00,000
3	50,000	80,000	10,000
4	50,000	30,000	-
5	1,90,000	-	-

a) Rank each project applying the methods of PB, NPV, IRR and profitability Index.

b) Recommend the project to be adopted and give reasons.

SECTION – D

10. Case Study : **15**

XYZ Ltd, has following book value capital structure :

Particulars	(Rs. Crores)
Equity capital (Rs. 10 per share fully paid up at par)	15
11% Preference capital (Rs. 100 pershare, fully paid up at par)	1
Retained earnings	20
13.5 % debentures (of Rs. 100 each)	10
15% term loans.	12.5

The next expected dividend on equity shares per share is Rs. 3.60 and the dividend per share is expected to grow at the rate of 7%. The market price per share is Rs. 40.

Preference stock, redeemable after 10 years is currently selling at Rs. 75 per share. Debenture redeemable after six years are selling at Rs. 80 per debenture.

Required to calculate weighted average cost of capital using

a) Book value proportions

b) Market value proportions.

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%

P.T.O.

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% ?

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PG – 099

II Semester M.B.A. (Day) Degree Examination, June/July 2013
(2007 – 08 Scheme)
MANAGEMENT
Paper – 2.2 : Financial Management

Time : 3 Hours

Max. Marks : 75

SECTION – A

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

1. a) What do you mean by Financial Management ?
   b) What is the significance of Financial Leverage ?
   c) What do you mean by Capitalization ?
   d) What is Working Capital Policy ?
   e) Define IRR.
   f) What do you mean by Stock dividend ?
   g) What is EOQ ?
   h) What are the motives of holding cash ?

SECTION – B

Answer **any 3** questions. **Each** carries **8** marks. **(3×8=24)**

2. Explain the different dividend policies practiced in India.
3. a) From the following capital structure of a Co., calculate weighted average cost of capital.

Source	**Book Value**	**After Tax cost (%)**
Equity Share Capital (Rs. 10)	90,000	14%
Retained earnings	30,000	13%
Pref. share capital	20,000	10%
Debenture	60,000	5%

P.T.O.

b) Calculate operating and financial leverage from the following data :

Interest Rs. 5,000

Sales Rs. 75,000

Variable cost Rs. 30,000

Fixed cost Rs. 20,000.

4. a) Prepare an estimate of working capital requirement from the following data of a trading concern :

   a) Project annual sales 80000 units

   b) Selling price Rs. 8 per unit

   c) Percentage net profit as sales 20

   d) Average credit period allowed to customers – 10 weeks

   e) Average credit period allowed to suppliers – 8 weeks

   f) Average stock holding in terms of sales requirement – 10 weeks

   g) Allow 20% for contingencies.

   b) The management of Vibgyor Fabrics subscribes to the NOI approach and believes that its cost of debt and overall cost of capital will remain at 9% and 12% respectively. If the debt-equity ratio is 0.8, what is the cost of equity ?

5. Consider two bonds P and Q :

	Bond P	Bond Q
Face value	1,000	1,000
Coupon (Interest rate)	16%	12%
Years to maturity	8	5
Redemption value	1,000	1,000
Current market price	Rs. 918.5	Rs. 761

What are the yield to maturity, durations and volatility of these bonds ?

6. Discuss the M. M. approach to the theory capital structure.

SECTION – C

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

7. Explain the factors which determine the working capital requirements of a firm.

8. Using Walter's Model calculate price of equity shares of the following three companies :

	X	Y	Z
Cost of capital	10%	10%	10%
Rate of return expected	5%	10%	15%
Earning per share	Rs. 10	Rs. 10	Rs. 10

The payment of dividend is as follows :

Situation :

i) 25%

ii) 75%

iii) 100%

9. Satisha Ltd., Company has equity share capital Rs. 5,00,000 divided into shares of Rs. 100 each. It wishes to raise further Rs. 3,00,000 for modernisation plans. The company plans the following schemes :

a) All Equity Shares

b) Rs. 1,00,000 in equity shares and Rs. 2,00,000 in debt at 10% p.a.,

c) All debt @ 10% p.a.

d) Rs. 1,00,000 in Equity Shares and Rs. 2,00,000 in Preference Share Capital with rate of dividend at 8%.

The company has estimated EBIT at Rs. 1,50,000. The Corporate rate of tax is 50%. Calculate EPS in each case. Give a comment as to which capital structure is suitable.

PG – 776

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.

II Semester M.B.A. Degree Examination, July 2016
(2007-08 Scheme)
MANAGEMENT
2.2 : Financial Management

Time : 3 Hours Max. Marks : 75

***Instruction :** Answer **all** Sections.*

SECTION – A (2×6=12)

1. Answer **any six** of the following questions. **Each** question carries **2** marks.
   a) What is wealth maximization ?
   b) Differentiate between before A.R.R. and I.R.R.
   c) What is financial leverage ?
   d) What is optimum capital structure ?
   e) What is net working capital ?
   f) What is a bonus share ?
   g) What is Concentration banking ?
   h) What is meant by capital rationing ?

SECTION – B (8×3=24)

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

2. Discuss the different techniques of capital budgeting.
3. What is working capital policy ? Discuss the different types of working capital policies.
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) = 15%, 12% and 10%
   Ke = 12.5 percent
   EPS (E) = Rs. 10
   Determine the value of shares according to Walter's model for the following payout ratios :
   0%, 25%, 50%, 75% and 100%

P.T.O.

5. Two firms, A and B, have provided the following information :

	Sales (Rs. in lakhs)	Variable costs (Rs. in lakhs)	Fixed costs (Rs. in lakhs)
Firm A	1800	450	900
Firm B	1500	750	375

You are required to calculate :

i) Profit to sales ratio

ii) Degree of operating leverage for the firms.

iii) Degree of financial leverage.

6. A company sells 40,000 units of its product per year @ Rs. 35 per unit. The average cost per unit is Rs. 31 out of which variable cost per unit is Rs. 28. The average collection period is 60 days. Bad debts 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 the losses on account of 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 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 ? (Assume 360 days in a year for the purpose of your calculation.)

SECTION – C **(2x12=24)**

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

7. Give a critical appraisal of the Modigliani and Miller approach to the problem of capital structure.

8. The following information has been extracted from the records of a company :

Product cost sheet	**(Rs. per unit)**
Raw materials	45
Direct labour	20
Overheads	40
Total cost	105
Profit	15
Selling price	**120**

a) Raw materials are in stock on an average of two months.

b) The materials are in process on an average for 4 weeks. The degree of completion is 50%.

c) Finished goods stock on an average is for one month.

d) Time lag in payment of wages and overheads is 1½ weeks.

e) Time lag receipt of proceeds from debtors is 2 months.

f) Credit allowed by suppliers is one month.

g) 20% of the output is sold against cash.

h) The company expects to keep a cash balance of Rs. 1,00,000.

i) Take 52 weeks per annum.

The company is poised for a manufacture of 1,44,000 units in the year.

You are required to prepare a statement showing the working capital requirements of the company.

9. JKL Ltd. has the following book-value capital structure as on March 31, 2006.

	(Rs.)
Equity share capital (2,00,000 shares)	40,00,000
11.5% Preference shares	10,00,000
10% Debentures	30,00,000
	80,00,000

The equity share of the company sells for Rs. 20. It is expected that the company will pay next year a dividend of Rs. 2 per equity share, which is expected to grow at 5% p.a. forever. Assume a 35% corporate tax rate.

Required :

i) Compute Weighted Average Cost of Capital (WACC) of the company based on the existing capital structure.

ii) Compute the new WACC, if the company raises an additional Rs. 20 lakhs debt by issuing 12% debentures. This would result in increasing the expected equity dividend to Rs. 2.40 and leave the growth rate unchanged, but the price of equity share will fall to Rs. 16 per share.

SECTION – D (1x15=15)

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

10. Astra Zeneca Ltd. is considering two different investment proposals. The details are as under.

	Proposal A (Rs. in lakhs)	**Proposal B (Rs. in lakhs)**
Investment cost	1000	2000
Estimated cash inflows		
1	150	400
2	250	500
3	300	600
4	350	700
5	550	900

a) Suggest the most attractive proposal on the basis of Net present value method considering future incomes are discounted at 10%.

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

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

II Semester M.B.A. Degree Examination, July 2017
(2007-08 Scheme)
Paper – 2.2 : FINANCIAL MANAGEMENT

Time : 3 Hours Max. Marks : 75

SECTION – A

1. Answer **any six** of the questions. **Each** question carries **2** marks. **(6×2=12)**
   a) What is IRR ?
   b) Is wealth maximisation a superior objective ? State the reasons.
   c) What is lockbox system ?
   d) What do you mean by float ?
   e) What is NPV profile ?
   f) Suppose you deposited Rs. 10,000 in a bank that offers 12% interest p.a. What is the doubling period ?
   g) State the factors that influence investment in receivables.
   h) What is stock split ?

SECTION – B

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

2. Explain the sources of working capital finance.
3. Examine the features of an optimal capital structure.
4. Aries Ltd. wishes to raise additional finance of Rs. 10 lakh 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 other details :
   a) Debt/Equity mix 30%/70%
   b) Cost of debt upto Rs. 1,80,000 10% (Before Tax)
   c) Cost of debt beyond Rs. 1,80,000 16% (Before Tax)

d) EPS Rs. 4

e) Dividend payout 50% of earnings

f) Expected rate in dividend 10%

g) Current market price Rs. 44

h) Tax rate 50%

You are required :

i) To compute the pattern of raising additional finance.

ii) To determine the pretax and post tax average cost of additional debt.

iii) To determine the cost of retained earnings and cost of equity.

iv) Compute the weighted average after tax of additional finance.

5. X and Y Ltd. is desirous to purchase a business and has consulted you and one point on which you are asked to advise them, is the average of working capital will be required in the first year's working. You are instructed to add 10% to your computed figure to allow for contingencies.

i) Average amount backed up for stocks :	
Stock of finished product	5,000
Stock of stores and materials	8,000
ii) Average credit given :	
Inland sales, 6 weeks credit	3,12,000
Export sales 1.5 weeks credit	78,000
iii) Average time lag in payment of wages and other outgoings :	
Wages, 1.5 months	2,60,000
Stocks and materials, 1.5 months	48,000
Rent and royalties, 6 months	10,000
Clerical staff, 0.5 month	62,400
Manager, 0.5 month	4,800
Miscellaneous expenses, 1.5 months	48,000
iv) Payment in advance :	
Sundry expenses (paid quarterly)	8,000
v) Undrawn profits on an average throughout the year	11,000

Setup your calculations for the average amount of working capital required.

6. Suppose a firm borrows Rs. 10,00,000 at an interest rate of 15% and the loan is to be repaid in 6 equal installments at the end of the next 5 years. What is the size of the installments ? Prepare loan amortization schedule.

SECTION – C

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

7. State MM's proposition on capital structure. Illustrate how the arbitrage mechanism works with the help of an example.

8. Astra India Ltd. has currently an ordinary share capital of Rs. 25 lakhs, consisting of 25,000 shares of Rs. 100 each. The management is planning to raise another Rs. 20 lakhs to finance its major expansion programme, one of the four possible financial plans :

   Plan A : Entirely through ordinary shares.

   Plan B : 10 lakhs through ordinary shares and 10 lakhs in 8% long term loan.

   Plan C : 5 lakhs through ordinary shares and 15 lakhs in 9% loan (LT)

   Plan D : 10 lakhs through ordinary shares and 10 lakhs through preference shares with 5% dividend.

   The companies expected Earnings Before Interest and Tax (EBIT) will be Rs. 8 lakhs. Assuming a corporate tax rate of 50%, determine the EPS in each alternative and comment, which alternative is best and why ?

9. The EPS of a company is Rs. 8 and the rate of capitalization is 10%. The company has before it, an option of adopting (i) 50 (ii) 75 (iii) 100% dividend payout ratio. Compute the market price per share of the company's quoted shares per share as per Walter's model if it can earn a return of (a) 15% (b) 10% and (c) 5% on its retained earnings.

SECTION – D

Case study (**Compulsory**) : **(1×15=15)**

10. You are a financial analyst in XYZ Co. Ltd. The director of the capital budgeting has asked to analyse two proposed capital investments, project P and Q. Each project has a cost of Rs. 10,00,000 and the cost of capital for each project is 12%. The project expected net cash flows are as follows :

Expected Net Cash Flows

Year	**Project P**	**Project Q**
0	(10,00,000)	(10,00,000)
1	6,50,000	3,50,000

2	3,00,000	3,50,000
3	3,00,000	3,50,000
4	1,00,000	3,50,000

Required :

a) Calculate each projects payback period, NPV and IRR.

b) Which project or projects should be accepted, if they are independent ?

c) Which project or projects should be accepted, if they are mutually exclusive ?

d) How might a change in cost of capital produce a conflict between NPV and IRR rankings of these two projects ? Would this conflict exist if 'k' were 5% ?

e) Why does this conflict exist ?