II Semester M.B.A. Degree Examination, July 2018
(CBCS)
MANAGEMENT
2.5 : Financial Management

Time : 3 Hours   Max. Marks : 70

SECTION – A

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

1. Define the scope of Financial Management. What role should the financial manager play in a modern enterprise ? Explain.

2. Discuss the factors that should be considered while deciding a firm's capital structure.

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

4. A company has Rs. 40,00,000 8% debentures outstanding to-day. It has to redeem the debentures after 5 years and establishing a sinking fund to provide funds for redemption. Sinking Fund Investments can earn interest @ 12 percent per annum. The investments are made at the end of each year. What annual payment must the firm make to ensure that the needed Rs. 40,00,000 is available on the designated date.

5. ABC Ltd. has current sales of Rs. 40,00,000. The company planning to introduce a cash discount policy of 2/10, net 30. As a result the company expects the average collection period to go down by 10 days and 70% of the sales opt for cash discount facility. If the company's required return on investment in receivables is 20%. Should it introduce the new discount policy ?

6. If the combined leverage and operating leverage of a company are 2.5 and 1.25 respectively. Find the financial leverage and P/V ratio. Given that the equity dividend per share is Rs. 2, interest payable per year is Rs. 1,00,000, total fixed cost Rs. 50,000 and sales Rs. 10,00,000.

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7. ABC Ltd. sells its product @ a gross profit of 20% on sales. The following information is extracted from its annual accounts for the year.

	Amount Rs.
Sales (3 months credit)	60,00,000
Raw-materials	18,00,000
Wages (15 days in arrears)	9,60,000
Manufacturing expenses (one month in arrears)	12,00,000
Administrative expenses (one month in arrears)	4,80,000
Sales promotion expenses (payable half yearly in advance)	2,00,000
Income tax (last quarter installment due)	4,00,000

The company enjoys one month credit from the suppliers of raw-materials and maintains two month's stock of raw-materials and one month's finished goods. Cash balance is maintained at Rs. 1,00,000.

Calculate its net working capital.

SECTION – B

Answer **any three** of the following questions. **Each** question carries **10** marks. **(3×10=30)**

8. What are the different methods of appraising capital investments ? Discuss briefly each of the methods.

9. Explain the different sources of financing working capital needs of an organisation.

10. The existing capital structure of XYZ Ltd. is as follows

	Amount Rs.
Equity shares of Rs. 100 each	40,00,000
Retained earnings	10,00,000
9% preference shares	25,00,000
7% debentures	25,00,000

Company earns a return of 12% and tax on income is 35%.

The company wants to raise Rs. 25,00,000 for its expansion project for which it is considering following alternatives.

i) Issue of 20,000 equity shares @ a premium of Rs. 25 per share.

ii) Issue 10% preference shares.

iii) Issue 9% debentures.

Projected that P/E 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 for your choice.

11. You are required to determine the weighted average cost of capital of M/s Vinayaka Enterprises Ltd., Bengaluru using (i) Book value weights (ii) Market value weights. The company's present book value capital structure is

	Amount Rs.
Debenture (Rs. 100 per debenture)	16,00,000
Preference shares (Rs. 100 per share)	4,00,000
Equity shares (Rs. 10 per share)	20,00,000

All these securities are traded in the capital markets. Recent prices are Debentures @ Rs. 110, preference shares @ Rs. 120 and equity shares @ Rs. 22. Anticipated external financing opportunities are

i) Rs. 100 per debenture redeemable at par, 10 years maturity, 8% coupon rate, 4% floatation cost, sale price Rs. 100.

ii) Rs. 100 preference shares, redeemable @ par, 15 years maturity, 10% dividend rate, 5% floatation cost, sale price Rs. 100.

iii) Equity shares Rs. 2 per share floatation cost, sale price Rs. 22. In addition the dividend expected on equity share at the end of the year Rs. 2 per share, the anticipated growth rate in dividends is 5%. The tax rate is 50%.

SECTION – C

(Compulsory) **(1×15=15)**

12. X Company Ltd. is considering two different investment proposals. Proposal – A has an investment cost of Rs. 10 lakhs and Proposal – B has an investment cost of Rs. 28 lakhs. Both the projects are expected to yield returns for a period of 5 years. The estimated income before depreciation and tax of the two proposals are as follows :

Year End	**Proposal – A** Rs.	**Proposal – B** Rs.
1	3,30,000	9,00,000
2	5,00,000	11,00,000
3	3,70,000	12,00,000
4	3,00,000	8,00,000
5	2,00,000	7,00,000

a) Which is the most attractive investment proposal considering the discount rate of 12% ? Use NPV criteria to answer this question.

b) Find out the IRR of the two proposals.
