PG – 872

**II Semester M.B.A. Degree Examination, July 2017**
**(CBCS)**
**MANAGEMENT**
**2.5 : Financial Management**

Time : 3 Hours Max. Marks : 70

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

## SECTION – A

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

1. When can there arise a conflict between shareholders' and managers' goals ? How can it be resolved ?

2. Briefly explain the features of Venture Capital.

3. Explain the factors influencing dividend policy.

4. The earnings per share of a company are Rs. 10. It has an internal rate of return of 15% and the capitalization rate of its risk class is 12.5%. If Walter's model is used :
   i) What should the optimum payout ratio of the firm ?
   ii) What would be the price of the share at this payout ?

5. Assuming that a firm pays tax at a 40% tax rate, compute the after tax cost of capital in the following cases :
   a) A bond, sold at Rs. 100 with a 7 percent interest and a redemption price of Rs. 110, if the company redeems it in 5 years.
   b) An ordinary share, selling at a current market price of Rs. 120 and paying a current dividend of Rs. 9 per share, which is expected to grow at a rate of 8% ?

6. Rao Corporation has a target capital structure of 60% equity and 40% debt. Its cost of equity is 18% and its pre-tax cost of debt is 13%. If the relevant tax rate is 35%, what is Rao Corporation's WACC ?

7. Explain the role of finance manager in the changing scenario of financial management in India.

P.T.O.

## SECTION – B

Answer **any three** of the following, **each** question carries **ten** marks. **(10×3=30)**

8. "Finance function of a business is closely related to its other functions". Discuss with suitable examples.

9. A firm's sales, variable costs and fixed cost amount to Rs. 75,00,000, Rs. 42,00,000 and Rs. 6,00,000 respectively. It has borrowed Rs. 45,00,000 at 9 percent and its equity capital totals Rs. 55,00,000.
   a) What is the firm's ROI ?
   b) Does it have a favorable financial leverage ?
   c) If the firm belongs to an industry whose asset turnover is 3, does it have a high or low asset leverage ?
   d) What are the operating, financial and combined leverages of the firm ?
   e) If the sales drop to Rs. 50,00,000, what will the new EBIT be ?
   f) At what level will the EBT of the firm equal to zero ?

10. JKL Limited is considering the revision of its credit policy with a view to increasing its sales and profit. 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 manager of the company has given the following options along with estimates for considerations :

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

You are required to advise the company for the best option.

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

| | Amount per unit (₹) |
|---|---|
| Raw material | 80 |
| Direct labour | 30 |
| Overheads | 60 |
| Total cost | 170 |
| Profit | 30 |
| **Selling price** | **200** |

The following further particulars are available. Raw materials are in stock on an average for one month, WIP on an average for half a month. Finished goods are in stock on an average for one month.

Credit allowed by suppliers is one month, credit allowed to customers is two months. Lag in payment of wages is 1½ weeks (1.5), lag in payment of overhead expenses is one month. One-forth of the output is sold against cash, cash in hand and at bank is expected to be ₹ 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 throughout the year, wages and overheads accrue similarly and a time period of 4 weeks is equivalent to a month.

## SECTION – C

12. **Compulsory** question : **(1×15=15)**

Case study :

You are a financial analyst for Hitesh Co. Ltd. The Director of capital budgeting has asked you to analyze the two proposed capital investments, Project X and Project Y. Each project has a cost of Rs. 2 million and the cost of capital for each project is 12%. The project's expected profit before depreciation and taxes are :

| Year | Project X (PBDT) | Project Y (PBDT) |
|---|---|---|
| 1 | 8,00,000 | 15,00,000 |
| 2 | 8,00,000 | 10,00,000 |
| 3 | 8,00,000 | 6,00,000 |
| 4 | 8,00,000 | 2,00,000 |

a) Calculate Pay Back Period, Net Present Value and Profitability Index.

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