

Q.P. Code : 61315

Second Semester (DAY) M.B.A. Degree Examination, July 2019

(CBCS – 2014 Scheme)

Management

Paper 2.5 – FINANCIAL MANAGEMENT

Time : 3 Hours]

[Max. Marks : 70

Instruction : Answer All the Sections.

SECTION – A

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

1. Explain the “Emerging role of finance manager in India”.
2. Discuss the importance of venture capital to developing countries.
3. “Depreciation is an important source of working capital”. Do you agree? Defend your answer.
4. The following information relates to XYZ Ltd. :

	Rs.
Paid-up equity capital	20,00,000
Earnings of the company	2,00,000
Dividend paid	1,60,000
Price-earning ratio	125
Number of shares outstanding	20,000

You are required to find out whether the company’s dividend pay out ratio is optimal, using Walter’s Model.

5. The following data are available for X Ltd. :

Selling Price per unit = ₹ 120

Variable cost per unit = ₹ 70

Fixed cost = ₹ 2,00,000

- (a) What is the operating leverage when X Ltd. produces and sells 6,000 units?
- (b) What is the percentage change that will occur in the EBIT of X Ltd. if output increases by 5%?

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6. Vishnu Steels Ltd. has issued 30,000 irredeemable 14% Debentures of Rs. 150 each. The cost of floatation of Debentures is 5% of the total issued amount. The company's taxation rate is 40%. Calculate the cost of debt.
7. A firm has two alternative plans for raising additional funds of ₹ 10,00,000 :
- (a) Issue of 10,000 debentures of ₹ 100 each bearing 10% interest per annum.
- (b) Issue of 4,000 debentures of ₹ 100 each bearing 10% interest per annum and balance by the issue of 12% preference shares.

You are required to calculate the Financial Break Even Point for each plan assuming a tax rate of 50%.

SECTION - B

Answer any **THREE** of the following. Each question carries **10** marks :

(3 × 10 = 30)

8. "Wealth Maximisation of the organisation leads to Economic growth of the country". Discuss.
9. A company proposes to install a machine involving a capital cost of ₹ 1,80,000. The life of the machine is 5 years and its salvage value at the end of the life is nil. The machine will produce the net operating income after depreciation of ₹ 34,000 per annum. The company's tax rate is 45%.

The net present value factors for 5 years are as under :

Discounting rate :	14	15	16	17	18
Cumulative factor :	3.43	3.35	3.27	3.20	3.13

You are required to calculate the internal rate of return of the proposal.

10. A company has the following capital structure :

		(Rs. lakhs)
Equity Capital	1,00,000 shares of Rs. 10 each	10
Reserves and surplus (retained earnings)		8
12% debentures	5,000 numbers of Rs. 100 each	5
		23

- (a) If the company is paying dividend at 27%, calculate the cost of equity and weighted average cost of capital, based on book values.
- (b) If the market value of equity shares is Rs. 15 each and if the debentures are quoted at Rs. 95 each, what is the weighted average cost of capital, based on market values?

Note : Tax rate in both cases is 50%.

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11. Compute the market value of the firm value of shares and the average cost of capital :

	₹
Net operating income	2,00,000
Total investment	10,00,000

Equity capitalisation rate :

- (a) If the firm uses no debt 10%
(b) If the firm uses ₹ 4,00,000 debentures
(c) If the firm uses ₹ 6,00,000 debentures

Assume that ₹ 4,00,000 debentures can be raised at 5% interest, whereas ₹ 6,00,000 debentures can be raised at 6% interest.

SECTION – C

12. Case Study (**Compulsory**) : **(1 × 15 = 15)**

The Board of Directors of Nanak Engineering Company Private Ltd. requests you to prepare a statement showing the Working Capital Requirements for a level of activity of 1,56,000 units of production.

The following information is available for your calculations :

	Per unit
	₹
(a) Raw materials	90
Direct labour	40
Overheads	75
	<hr/>
	205
Profit	60
	<hr/>
Selling price per unit	265

- (b) (i) Raw materials are in stock, on average one month.
(ii) Materials are in process, on average 2 weeks.
(iii) Finished goods are in stock, on average one month.
(iv) Credit allowed by suppliers, one month.
(v) Time lag in payment from debtors, 2 months.
(vi) Lag in payment of wages, 1½ weeks.
(vii) Lag in payment of overheads is one month.

20% of the output is sold against cash. Cash in hand and at bank is expected to be ₹ 60,000. It is to be assumed 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.