

MBA II Semester Supplementary Examinations June/July 2018

FINANCIAL MANAGEMENT

(For students admitted in 2014, 2015 & 2016 only)

Time: 3 hours

Max. Marks: 60

SECTION – A

(Answer the following: (05 X 10 = 50 Marks))

- 1 Briefly explain the changing scenario of financial management in India.
- OR**
- 2 Critically analyse the important function of finance manager in a large scale industrial establishment.
- 3 Rank the following projects on the basis of: (i) Payback method. (ii) Accounting rate of return method. (iii) Net present value method.

Particulars	Year	Project (A) Rs.	Project (B) Rs.	Project (C) Rs.
Investment	0	30,000	30,000	30,000
Annual savings	I	13,800	36,150	-
	II	13,800	-	-
	III	13,800	-	46,827

[Note: Annuity table may be provided].

OR

- 4 Discuss the problem of identification, formulation, appraisal and implementation of new projects.
- 5 Kavina Ltd has an equity capital of 6,000 shares @ Rs. 100, each. The company plans to raise Rs. 4,00,000 for expansion and modernization. The following alternatives are under consideration.
 - (i) Issue of common stock.
 - (ii) Issue of common stock for Rs. 2,00,000 and 10% debt for Rs. 2,00,000.
 - (iii) Issue of 10% debt.
 - (iv) Issue of 10% preference shares of Rs. 2,00,000 and 10% debt of Rs. 2,00,000.
 The company's existing earnings before interest and taxes are Rs. 4,00,000. The corporate tax rate is 50%. Determine the earnings per share in each plan.

OR

- 6 What are the factors that determine the dividend policy of a company? And also explain different form of dividend.
- 7 Explain the factors which determine the working capital needs of the organization.

OR

- 8 Prepare cash budget for 3 months ended on 30th September 2017.
 Cash at bank on 1.7.2017 : Rs. 25000
 Salaries and wages monthly : Rs. 10000
 Interest payable : Rs. 5000 (August).

Particulars	June Rs.	July Rs.	August Rs.	September Rs.
Cash sales	-	1,40,000	1,52,000	1,21,000
Credit sales	1,00,000	80,000	1,40,000	1,20,000
Purchases	1,60,000	1,70,000	2,40,000	1,80,000
Other expenses	-	20,000	22,000	21,000

Credit sales are collected 50% in the month of sales are made and 50% in the month following. Collection from credit sales are subject to 5% discount. If payment is received during the month of sales and 2½ %. If payment is received in the month following. Creditors are paid either on a prompt category or 30 days basis. It is estimated that 10% of creditors are in the prompt category.

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- 9 Explain the differences between managerial synergy, operating synergy & financial synergy and their relationship to different types of mergers.

OR

- 10 What financial consideration affects the decision relating to merger of corporate enterprises?

SECTION – B

(Compulsory question, 01 X 10 = 10 Marks)

- 11 **Case Study:**

Kowranth Ltd has the following capital structure on 30.6.2017.

Ordinary share capital (2,00,000 shares) :	40,00,000
6% preference shares :	10,00,000
8% debentures :	30,00,000
	<u>80,00,000</u>

The share of the company sells for Rs. 20. It is expected that company will pay a current dividend of Rs. 2 per share which will grow at 7% for ever. Assume the tax rate may be 50%.

- (i) Compute the weighted average cost of capital based on existing capital structure.
(ii) Compute the new weighted average cost of capital, if the company raises an additional debt of Rs. 20,00,000 by issuing 10% debenture. This would result in increasing the expected dividend to Rs. 3 and leave the growth rate unchanged, but the price of the share will fall to Rs. 15 per share.
(iii) Compute the cost of capital if in (ii) above growth rate increase to 10%.
