Code No: MB1321/R13

MBA II Semester Supplementary Examinations, May- 2017

FINANCIAL MANAGEMENT

Time: 3 hours **Max. Marks: 60**

Answer any FIVE Questions
All Questions Carry Equal Marks.
Q.No.8 is Compulsory

1. a) Write a brief note on Scope of Corporation finance. 6

   b) Write a note on Profit Maximisation Vs Wealth Maximisation. 6

2. a) What is Cost of Capital? Explain the significance of Cost of Capital? 6

   b) XY Ltd needs Rs. 50,00,000 for the installation of a new factory. The new factory is expected to yield annual Earnings Before Interest and Tax(EBIT) of Rs.10,00,000. In choosing a financial plan, XY ltd has an objective of maximizing earnings per share. It is considering the possibilities of issuing ordinary shares and rasing debt of Rs.5,00,000 or Rs. 20,00,000 or Rs. 30,00,000. The current market price per share is Rs.300 and is expected to drop to Rs.250 if the funds are borrowed in excess of Rs. 20,00,000. Funds can be raised at the following rates: 6

   Upto Rs.5,00,000 at 10%
   Over Rs.5,00,000 to Rs.20,00,000 at 15%
   Over Rs.20,00,000 at 20%
   Assuming a tax rate of 50%

3. a) Discuss the relation between debt financing and financial leverage. 6

   b) A firm has sales of Rs.10,00,000, variable Cost Rs.7,00,000 and fixed cost Rs.2,00,000 and debt of Rs.5,00,000 at 10% rate of interest. What are the operating and financial Leverages? 6

4. a) What is Capital Budgeting? Why is it Significant for a firm? 6

   b) A company is considering an investment proposal to install new milling controls. The project will cost Rs.50,000. The facility has life expectancy of 5 years and no salvage value. The company tax rate is 55%. The firm uses straight line depreciation. The estimated profit before tax from the proposed investment proposal are as follows: 6

Year	Profit(Rs.)
1	10,000
2	11,000
3	14,000
4	15,000
5	25,000

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Compute the following:

i. Pay back period
ii. Net Present Value at 10% discount rate
iii. Profitability index at 10% Discount rate

5\. a) Explain the various factors which influence the dividend decision of a firm. 6

b) The following information is available in respect of ABC Ltd. 6

EPS	Rs.10
Rate of return	20%
Required rate return Of equity investment Ke	16%

Find out the market price of the share under Gordon Model if the firm follows a payout of 50% and 25%.

6\. a) Determine the need and determinants of Working capital in a business? 6

b) The following annual figures relate to MNP Limited: 6

Sales(at three months credit)	Rs.90,00,000
Materials consumed (Suppliers extend one and half month's credit)	Rs.22,50,000
Wages(paid one month in arrear)	Rs.18,00,000
Manufacturing expenses outstanding at the end of the year (cash expenses are paid one month in arrear)	Rs. 2,00,000
Total administrative expenses for the year (cash expenses are paid one month in arrear)	Rs. 6,00,000
Sales promotion expenses for the year (Paid quarterly in advance)	Rs.12,00,000

The company sells its products on gross profit of 25% assuming depreciation as a part of cost of production. It keeps two month's stock of finished goods and one month's stock of raw materials as inventory. It keeps cash balance of Rs.2,50,000.

Assume a 5% safety margin, work out the working capital requirements of the company on cash cost basis. Ignore work-in-progress.

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7. a) What is receivable Management? How it is useful for business Concerns? 6

b) The income and expenditure forecasts for months of March to August,2016 are given as follows: 6

Months	Sales (Credit)	Purchases (Credit)	Wages	Manufacturing Expenses	Office Expenses	Selling Expenses
March	60,000	36,000	9,000	3,500	2,000	4,000
April	62,000	38,000	8,000	3,750	1,500	5,000
May	64,000	33,000	10,000	4,000	2,500	4,500
June	58,000	35,000	8,500	3,750	2,000	3,500
July	56,000	39,000	9,500	5,000	1,000	3,500
August	60,000	34,000	8,000	5,200	1,500	4,500

You are given the following further information:

i. Plant costing Rs.16,000 is due for delivery in July payable 10% on delivery and the balance after three months.
ii. Advance tax of Rs.8,000 is payable in March and June each.
iii. Creditors allow two months credit and Debtors are paying one month late . Opening balance of cash Rs.8, 000, lag of one month of expenses.

Prepare cash budget for the months May to July.

8. **Case Study:** 12

Company B is being acquired by company A on share exchange basis. The relevant data for the two companies are given below:

	Company A	Company B
Number of shares(Lakhs)	6	4
Earnings after tax(Rs.Lakhs)	30	12
EPS(Rs.)	5	3
Price-earning ratio	16	8

You are required to determine:

a. Pre-merger market value per share;
b. The maximum share exchange ratio that company A should offer without the dilution of (i) EPS, (ii) Market value per share.

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