10/07/17.

C 24229 (Pages : 4) Name.....

Reg. No.....

SECOND SEMESTER M.B.A. DEGREE EXAMINATION, JUNE 2017

(CUCSS)

BUS 2C 11—FINANCIAL MANAGEMENT

(Regular FT—2016 Admissions)

Time : Three Hours Maximum : 36 Weightage

Part A

Answer **all** *questions.*
Each question carries 1 *weightage.*

1. Define the term "Financial Management".
2. What do you mean by Under Capitalization ?
3. How do you compute Present Value of Annuity ?
4. What do you mean Opportunity Cost of Capital ?
5. What is Combined Leverage ?
6. What is V-E-D Technique of Inventory ?

(6 × 1= 6 weightage)

Part B

Answer any **four** *questions.*
Each questions carries 3 *weightage.*

7. Explain in brief the functions of Financial Management ?
8. Discuss in brief the significance of Cost of Capital.
9. What is EB1T-EPS Analysis ? How do you choose the best financing option using EBIT-EPS Analysis ?
10. Discuss in brief the differences between NPV and IRR Techniques.
11. What is Cash Budget ? Explain the procedure to prepare Cash Budget.
12. Discuss in brief Gordon's Model of Dividend theory.

(4 × 3 =12 weightage)

Turn over

Part C

Answer any **three** *questions.*
Each questions carries 4 *weightage.*

13. A Company has the following capital structure as on 31-12-2016 :

Particulars	Rs.
Equity Capital (20,000 shares)	10,00,000
10% Preference Share Capital	2,50,000
14% Debentures	7,50,000
Total	20,00,000

The company share is currently selling at Rs.20. Next year expected dividend is Rs.2 per share that will grow at 6 per cent forever. The company is in the tax bracket of 50 per cent. You are required to calculate:

(i) Weighted Average Cost of Capital based on the existing capital structure.

(ii) New weighted average cost of capital if the company raises an additional Rs.5,00,000 debt by issuing 15 per cent debentures. This will increase the existing dividend by Rs.1 and leave growth rate unchanged, but the price of share will fall to Rs.15.

14. Prudent Company limited has currently an all equity capital structure consisting of 15,000 equity shares of Rs.100 each. The management is planning to raise another Rs.25,00,000 to finance a major expansion programme and is considering three alternatives methods of finance.

I. To issue 25,000,equity shares of Rs.100 each.

II. To issue 25,000,8% Debenture of Rs.100 each.

III. To issue 25,000,8% Preference shares of Rs.100 each.

The company's expected EBIT will be Rs.8, 00,000. Assuming a corporate tax rate of 46 per cent.

Determine the Earning PerShare of each Financial Plan and determine the best one and why?

15. ABC company is expected an EBIT of Rs.1,00,000 whose equity capitalization rate (Ke) is 12.5 per cent. Currently company has a debt capital of Rs.4,00,000 at 8%. Calculate the value of the firm (V) and Cost of Capital (ko) under Net income Approach of Capital structure theory.

Case I : When Company increases debt by Rs.2,00,000 uses proceeds to repurchase equity shares.

Case II : When Company reduces debt to Rs.200,000 by uses equity shares, of the same amount

16. From the following information, find out Market price of the Share using Gordon's Dividend theory.

Particulars	
Earnings Per Share (Rs.)	Rs. 20
Cost of Capital (K) (%)	12 Per cent
Internal Rate of Return (r) (%)	14 Per cent
Dividend Payout Ratio (%)	20 Per cent
Retention Ratio (%)	80 Per cent

17. Calculate the Degree of Operating Leverage for a small firm considering the following details of cost, selling price and sales volume.

Fixed Cost = Rs.20,000.

Variable Cost = Rs. 25 per unit.

Selling Price = Rs. 40 per unit.

Present sales volume = 5,000 Units.

Expected sales volume = 6,000.

Further analyse the impact on Operating Leverage if fixed cost is Rs.25, 000 instead of RS.20,000.

(3 × 4 = 12 weightage)

Part D

Answer the **compulsory** *questions.*
Each question carries 6 *weightage.*

18. ABC limited has under consideration two mutually exclusion proposals for the purchase of new equipment.

Particulars	Machine X	Machine Y
Net cash outlay (Rs)	1,00,000	75,000
Salvage	Nil	Nil
Life (years)	5	5
PBDT (Rs)	Rs.	Rs.
1	25,000	18,000
2	30,000	20,000
3	35,000	22,000
4	25,000	20,000
5	20,000	16,000

Assuming the tax rate to be 50 percent, suggest the management the best alternative using.

(i) Payback Period.

(ii) Average Rate Return.

(iii) Net Present Value at 10 per cent.

(iv) Profitability Index at 10 per cent.

(6 × 1 = 6 weightage)