D 42898 (Pages : 4) Name..

Reg. No.....................................

SECOND SEMESTER M.B.A. DEGREE EXAMINATION, JUNE 2018

(CUCSS)

M.B.A.

BUS 2C 11—FINANCIAL MANAGEMENT

(2016 Admissions)

Time : Three Hours Maximum : 36 Weightage

Part A

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

1. Profit Maximisation *Vs*. Wealth Maximisation.
2. What is Capital Rationing in Capital Budgeting ?
3. How do you compute Cost of Debt ?
4. Explain in five lines about Net Working Capital.
5. What do you mean by Combined Leverage ?
6. What is Economic Order Quantity (EOQ) ?

(6 × 1 = 6 weightage)

Part B

Answer any **four** *of the following questions.*
Each question carries 3 *weightage.*

7. Explain in brief the functions of Financial Management.
8. Differentiate between NPV and IRR Methods of Capital Budgeting.
9. Explain significance of Cost of Capital.
10. What is the significance of Present Value of Money ?
11. List out the techniques of Inventory Management.
12. Write formula for Gorden's Dividend Theory and explain.

(4 × 3 = 12 weightage)

Turn over

Part C

Answer any **three** *of the following questions.*
Each question carries 4 weightage.

13. Calculate the cost of capital in the following cases :

    (i) X Ltd. issues 12% Debentures of face value Rs. 100 each and realizes Rs. 95 per Debenture. The Debentures are redeemable after 10 years at a premium of 10%.

    (ii) Y. Ltd. issues 14% preference shares of face value Rs. 100 each Rs. 92 per share. The shares are repayable after 12 years at par. Both companies are paying income tax at 50%.

14. The management of V Ltd., has called for a statement showing the working capital needed to finance a level of activity of 3,00,000 units of output for the year. The cost structure for the company's product, for the above mentioned activity level, is detailed below :

Particulars	Cost per Unit (Rs.)
Raw Material	20
Direct Labour	5
Over Heads	15
Total Cost per Unit	40
Profit	10
Selling Price per Unit	50

(i) Past experience indicates that the raw materials are held in stock, on an average for two months.

(ii) Work-in-Progress (WIP) (Consider 100% of Raw Material Cost and 50% of Labour and Overhead cost for WIP) will be approximately half a month's production.

(iii) Finished goods remain in warehouse on an average for a month.

(iv) Suppliers of materials extend a month's credit.

(v) Two months credit is allowed to customers.

(vi) A minimum of cash balance of Rs. 25,000 is expected to be maintained.

(vii) The production pattern is assumed to be even during the year.

Prepare the Statement of Working Capital requirements.

15. XYZ Company is expected an operating profit of Rs. 1,00,000 whose cost of capital is 12.5 percent. The company has a Debt Capital of Rs. 4,00,000 at 8 per cent. You are required to calculate the total value of the firm and Capital Cost (ke) at present situation and also under the following cases under Net Operating Income Approach

Case (a) : The company increases Debt from Rs. 4,00,000 to Rs. 6,00,000 and uses the proceeds to repurchase of equity shares.

Case (b) : The Company reduces Debt to Rs. 2,00,000 by fresh issue of equity shares of the same amount.

16. From the following information, analyse the effect of dividend policy as market value of shares according to Walter's Model when dividend payout ratio is :

(a) 40 per cent. (b) 60 per cent.

(c) 100 per cent.

Particulars	Plan A	Plan B	Plan C
Cost of Capital (%)	20	20	20
Internal Rate of Return (%)	30	20	15
Earnings Per Share (Rs.)	5	5	5

17. The Capital structure of LM Ltd consists of the following securities :

10%Debenture	...	Rs. 5,00,000
12% Preference Shares	...	Rs. 1,00,000
Equity Shares of Rs.100	...	Rs. 4,00,000

Operating Profit (EBIT) of Rs.1,60,000 and the Company is in 50 percent tax bracket :

(i) Determine the company's EPS.

(ii) Determine the Percentage change in EPS associated with 30% increase and decrease in EBIT.

(iii) Determine the degree of Financial Leverage.

(3 × 4 = 12 weightage)

Turn over

Part D

Answer the **compulsory** *question.*

18. There are two mutually exclusive projects under active consideration of a company. Both the projects have a life of 5 years and have initial cash outlays of Rs. 1,00,000 each. The company pays tax at 50% rate and the maximum required rate of the company has been given as 10%. The straight line method of depreciation will be charged on the projects. The projects are expected to generate a net cash inflow before taxes as follows :

Year	Project X	Project Y
	Rs.	Rs.
1	40,000	60,000
2	40,000	30,000
3	40,000	20,000
4	40,000	50,000
5	40,000	50,000

With the help of the above given information you are required to calculate :

(a) The Pay-back Period of each project

(b) The Average Rate of Return for each project

(c) The Net Present Value and Profitability Index for each project

On the basis of your calculations advice the company which project it should accept giving reasons.

(6 × 1 = 6 weightage)