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MASTER OF BUSINESS ADMINISTRATION (CBCS) DEGREE EXAMINATION, APRIL 2019.

Second Semester

Business Administration – Core

FINANCIAL MANAGEMENT

(For those who joined in July 2016 and afterwards)

Time : Three hours Maximum : 75 marks

PART A — (10 × 1 = 10 marks)

Answer ALL questions.

Choose the correct answer:

1. The return after the pay-off period is not considered in case of

   (a) Present value index method

   (b) Internal rate of return method

   (c) Pay-back method

   (d) All of these

Capital Structure :

	Financial Plan (A) Rs.	Financial Plan (A) Rs.
Equity	5,000	15,000
Debt (Cost 10%)	15,000	5,000
Total	20,000	20,000

Or

(b) From the following information, you are required to prepare balance sheet:

Current ratio	=	1.75
Liquid ratio	=	1.25
Stock Turnover ratio (Cost of sales/closing stock)	=	9
Gross Profit ratio	=	25%
Debt Collection period	=	1½ months
Reserves and surplus to Capital	=	0.2
Turnover to Fixed Assets	=	1.2
Capital Gearing ratio	=	0.6
Fixed Assets to Net Worth	=	1.25
Sales for the year	=	Rs. 12,00,000

2. ______________ is the relationship that exists between the present values of net cash inflows and present value of cash out flows.

(a) Cost of capital

(b) Profitability index

(c) Leverage

(d) Capital Structure

3. Operating cycle can be shortened by increasing

(a) Credit period to the customer

(b) Duration of credit availed

(c) Manufacturing time

(d) Marketing cost

4. Current Asset over the current liability is known as ______________.

(a) Gross Working Capital

(b) Net working Capital

(c) Total Asset

(d) Stock

5. ______________ refers to makeup of the firms capitalization.

(a) Cost of capital (b) Total Assets

(c) Total Liabilities (d) Capital Structure

6. ______________ refers to the valuation of the total business.

(a) Capitalization (b) Leverage

(c) Capital structure (d) Fixed asset

7. The power to declare dividend vests completely with ______________.

(a) Secretary (b) Board of Directors

(c) CEO (d) Financial manager

8. Which of the following methods does a firm resort to avoid dividend payments?

(a) Share splitting

(b) Declaring bonus shares

(c) Rights issue

(d) All the above.

9. ______________ are a Financial Contracts which solve the primary purpose of hedging the asset price fluctuation.

(a) Equity shares

(b) Preference Shares

(c) Derivatives Instruments

(d) Mutual funds

10. The satisfactory ratio between internal and external equity is ______________

(a) 1:1 (b) 2:1

(c) 3:1 (d) 4:1

PART B — (5 × 5 = 25 marks)

Answer ALL questions, choosing either (a) or (b).

11. (a) Write a brief note on scope of finance function.

Or

(b) A project cost Rs. 5,00,000 and yields annually a profit of Rs. 80,000 after depreciation @ 12% p.a. but before tax of 50%. Calculate the payback period.

12. (a) The following information as been provided by a company for the year ended 30/06/2008

Liabilities	Rs.	Assets	Rs.
Equity Share Capital	2,00,000	Fixed Assets less Depreciation	3,00,000
8% debentures	1,00,000	Inventories	1,00,000
Reserves& Surplus	50,000	Sundry Debtors	70,000
Long Term loans	50,000	Cash and Bank	10,000
Sundry creditors	80,000		
	4,80,000		4,80,000

Sales for the year ended 30/06/2008 amounted to Rs. 10,00,000 and it is estimated that the same will amount to Rs. 12,00,000 for the year 2008-09.

You are required to estimate the working capital requirements for the year 2008-09 assuming a linear relationship between sales and working capital.

Or

(b) List out the advantages adequate working capital.

13. (a) Describe the features of equity share capital.

Or

(b) What are the features of Optimal Capital Structure?

14. (a) Briefly explain the forms of dividend policy.

Or

(b) The following information is available in respect of a firm:

Capitalization rate (ke) = 0.10

Earnings per share (E) = Rs. 10

Assumed rate of return on investments (r) : (i) 15 , (ii) 8 and (iii) 10

Show the effect of dividend policy on the market piece of shares, using Walter's model.

15. (a) The following information are given for two companies.

	X Ltd	Y Ltd
Units produced and sold	17,000	17,000

Revenues	Rs. 1,70,000	Rs. 1,70,000
Fixed costs	85,000	34,000
Operating income	51,000	51,000
Variable cost	34,000	85,000

Find out the Break-Even point of each company both in units as well as in volume.

Or

(b) The following figures relate to two companies:

Particulars	P Ltd. (Rs. in Lakhs)	Q Ltd. (Rs. in Lakhs)
Sales	500	1,000
Variable Costs	200	300
Contribution	300	700
Fixed Costs	150	400
EBIT	150	300
Interest	50	100
Profit before tax	100	200

You are required to calculate the operating, financial and combined leverages for the two companies.

PART C — (5 × 8 = 40 marks)

Answer ALL questions, choosing either (a) or (b).

16. (a) The Alpha Co. Ltd., is considering the purchase of a new machine. Two alternative machines (A and B) have been suggested, each having an initial cost of Rs. 4,00,000 and

requiring Rs. 20,000 as additional working capital at the end of 1st year. Earnings after taxation are expected to be as follows:

Year	Cash Inflows Machine – A	Cash Inflows Machine – B
1	40,000	1,20,000
2	1,20,000	1,60,000
3	1,60,000	2,00,000
4	2,40,000	1,20,000
5	1,60,000	80,000

The company has a target of return on capital of 10% and on this basis, you are required to compare the profitability of the machines and state which alternative you consider financially preferable under the Net Present value Method?

Note:

P.V. Factor at 10% : Year-1 : 0.909, Year-2: 0.826, Year 3: 0.751, Year-4: 0.683, Year-5: 0.621.

Or

(b) Given below is the summery of the balance Sheet of a company as at 31st December-1999

Liabilities		Assets	
Equity Share capital		Fixed Assets	4,00,000
20,000 shares of Rs. 10 each	2,00,000	Investments	50,000
Reserves and surplus	1,30,000	Current Assets	2,00,000

8% Debentures (Redeemable at par in 2004)	1,70,000	
Short Term Loans	1,00,000	
Trade Creditors	50,000	
Total	6,50,000	6,50,000

You are required to calculate the company's weighted average cost of capital using balance sheet valuations. The following additional information is also available:

(i) 8% debenture ware used

(ii) All interest payments are up-to-date and equity dividend is currently 12%

(iii) Short-term loan carries interest at 18%p.a.

(iv) The rate of tax for the company may be taken at 50%

(v) The shares and debentures of the company are all quoted on the Stock exchange and current market price are as – Equity Shares Rs. 14 each, 8% Debentures Rs. 98 each.

17. (a) Explain the factors influencing the size of receivables.

Or

(b) Discuss about the various techniques of inventory management.

18. (a) What are the various long term funds available to a Indian Business Man? Explain.

Or

(b) Explain the various theories of capital structure.

19. (a) Explain the various dividend theories with related assumptions and criticisms.

Or

(b) Explain the various determinants of dividend policy.

20. (a) Calculate operating leverage and financial leverage under situation 1 and 2 and financial plans A and B respectively from the following information relating to the operation and capital structure of a company. What are the combinations of operating and financial leverage which give highest and least value?

Installed Capacity	2,000 units
Annual production and sales	50% of installed capacity
Selling price per unit	Rs. 20
Variable cost per unit	Rs. 10
Fixed Costs:	
Situation 1:	Rs. 4,000
Situation 2:	Rs. 5,000