2nd Semester Regular Examination - 2016
FINANCIAL MANAGEMENT
Q CODE : W 346
BRANCH: MBA
Time : 3 Hours
Max marks: 70
Answer Question No.1 & 2 which are compulsory and any four from the rest.
The figures in the right hand margin indicate marks.

Q1   Fill up the blanks in the following questions. Write only the answers in the   (2 x 10)
      Answer Book.
  a) Working Capital is required to finance operations during the time gap between
      _____ and _____
  b) Operating cycle in days = _____ period + _____ period.
  c) According to Baumol Model, the total cost associated with cash management
      has two elements _____ and _____.
  d) In the case of conflict in ranking _____ method provides better
      result than _____ method.
  e) _____ and _____ are the goals of Financial Management.
  f) _____ and _____ are two internal sources of finance.
  g) IRR equates _____ with _____.
  h) Cash inflows of a project is generally composed of _____ and
      _____.
  i) _____ is the process of buying securities at lower price in one
      market and selling it in another market at a higher price bringing about
      _____.
  j) The stable dividend policy is generally of two types, such as _____
      and _____.

Q2   (2x10)
  a) If F is future value, I is rate of interest and P is Principal sum of an investment.
      Deduce the formula to find F for 'n' number of years.
  b) Implicit cost may lead to insolvency. How ?
  c) If a company pays a dividend at the rate of 12% on paid up share capital and
      dividend tax is 10%, how much the company should earn so as to meet the
      dividend payment, if the company falls under the tax bracket of 30%.
  d) You desire to invest Rs.1,00,000 today and want Rs.2,00,000 as maturity
      money. If the annual compounding rate of interest is 9%, how long should you
      wait to get the desired amount ?
  e) What are the two techniques to discuss the issue of time value of money?
  f) If the current year's dividend is Rs.24, growth rate of the company is 10% and
      the required return on the stock is 16%, what is the intrinsic value of the stock?
  g) Explain the concept of trading on equity with an example.

h) If the ratio of debt to equity increases, what would be its impact on WACC and market value?

i) Even if a project investment does not yield any profit, it has to be incurred. Is it true? When and Why?

j) Explain how do liquidity and profitability contradict each other in financial decisions.

Q3 a) A company furnishes the following data: (10)
    Sales   -   Rs.3752 lakh
    Cost of goods sold   -   Rs.3444 lakh
        Opening Inventory   -   Rs.856 lakh
        Closing Inventory   -   Rs.1073 lakh
        Accounts receivable opening   -   Rs.852 lakh
        Accounts receivable closing   -   Rs.636 lakh
        Accounts payable opening   -   Rs.832 lakh
        Accounts payable closing   -   Rs.846 lakh

    Calculate OC & CCC

b) Explain the working capital cycle with diagram. (5)

Q4 a) VikasEngg. Ltd., has 1.00 lakh shares selling at Rs.100. The firm has net profits (10) of Rs.10 lakh and wants to make a new investment of Rs.20 lakh during the period. The firm is thinking of declaring a dividend of Rs.5/- share at the end of the current fiscal year. The firm's opportunity cost of capital is 10%.What will be the price of share at the end of the year if

    a) Dividend is not declared
    b) A dividend is declared.

b) In the above question, how many new shares may be issued? (5)

Q5   EEC Ltd. is considering the purchase of a machine. Two machines M1 and M2 (15) are available each costing Rs.1,00,000. Both machines will last for five years with no residual value. In comparing the profitability of machines, a discount rate of 10% is to be used. Earnings after taxation @ 40% and charging depreciation straight line are expected to be as follows :

Year	M1 Rs.	M2 Rs
1	10,000	(10,000) Loss
2	20,000	10,000
3	30,000	20,000
4	10,000	40,000
5	Nil	20,000

Indicate which machine would be a more profitable investment under the various methods of ranking investment proposals, viz., ARR, Pay Back, NPV and Profitability Index (PI).

Note : Present value interest factor @ 10% per annum.

Period :	0	1	2	3	4	5
Factor	1,000	0.909	0.826	0.751	0.683	0.621

Q6 a) The following information is available in respect of a company : (10)

	Rs.
Equity Share Capital (Rs.10 each)	10,00,000
Debentures (14%)	30,00,000
Contribution per unit	20
Fixed Costs	12,00,000

The Company is producing at present 1,00,000 units. Management of company's plans to increase output by 25%. The tax rate is 40%. You are required to make out the following calculations for the existing as well as planned level of output :

(i) Degree of Operating leverage
(ii) Degree of Financial leverage
(iii) Earning per share.

b) For an efficient cash management, Finance Managers design different strategies. What are they ? (5)

Q7 a) For each of the companies described below, would you expect it to have a medium, high or low dividend payout ratio ? Explain why. (5)

(i) A company with a large proportion of inside ownership, and all whom are high-income individuals;
(ii) A company with volatile earnings and high business risk.

b) "In the current economic scenario, financial management has assumed much greater significance. It is now a question of survival of entities in the total spectrum of economic activity, with the pragmatic re-adjustment of financial management" Comment. 10

Q8 a) Why should firms hold cash, knowing fully well that cash in hand is an idle asset. 5

b) The annual cash requirement of ABC Ltd. Is Rs.10 lakhs. The company has a number of marketable securities in lot sizes of Rs.50,000, Rs.1,00,000, Rs.2,00,000, Rs.2,50,000 and Rs.5,00,000. Cost of conversion of marketable securities per lot is Rs.1000. The company can earn 5% annual yield on its securities. 10

You are to advise the company which lot size marketable securities should be en-cashed and what would be the total holding cost ?