PVP 12

Code: **BA2T1**

I MBA-II Semester-Regular Examinations-OCTOBER 2013

FINANCIAL MANAGEMENT

Duration: 3hours | Max. Marks: 70

SECTION-A

1. Answer any FIVE of the following. 5 x 2=10 marks

a) Wealth maximization
b) Payback period
c) Preference shares
d) Fixed dividend
e) Operating cycle
f) Trade credit
g) Stock split
h) Bonus shares

SECTION-B

Answer the following. 5 x 10 = 50 marks

2. a) Discuss the nature of investment decisions and state the significance of capital budgeting

(OR)

b) Jagan group of companies is examining two mutually exclusive projects for new capital investment. Suggest which project is to be accepted by applying discounted cash flow techniques. The details are as follows;

	Project-A Rs	Project –B Rs
Net cash outlay	50,000	60,000
Estimated life	5 years	6 years
Depreciation method	Straight line	Straight line
Tax rate	50%	50%
Cost of capital	10%	10%

Earnings before Depreciation and Tax;

1st year	13,000	12,000
2nd year	15,000	16,000
3rd year	18,000	18,000
4th year	22,000	24,000
5th year	12,000	24,000
6th year	-----	20,000

P.V factor at 10 %;

Year;	1	2	3	4	5	6
PV factor	.909	.826	.751	.683	.620	.564

3. a) What is weighted average cost of capital and discuss about its components

(OR)

b) XYZ Ltd has the following capital structure;

Type of Capital	Book value Rs	Market value Rs.	After tax cost
Long term debt	30,00,000	28,00,000	4.8%
Preference Stock	1,02,000	1,50,000	9.0%
Common Stock	11,08,000	25,00,000	13.0%
Total	42,10,000	54,50,000	

Calculate the weighted average cost of capital using
(a) book value weights and (b) Market value weights

4.a) Compare and contrast Walter and Gorden dividend models.

(OR)

b) A company is contemplating an issue of new equity shares. The firm's equity shares are currently selling at Rs.125 a share. The historical pattern of dividend payments per share for the last 5 years is given below;

Year	Dividend (RS)
1.	10.70
2.	11.45
3.	12.25
4.	13.11
5.	14.03

The flotation costs are expected to be 3 percent of the current selling price of the shares. You are required to determine the growth rate in dividends.

5.a) Discuss the factors that determine the working capital needs of a firm.

(OR)

b) From the following projections of ABC limited for the next year, you are required to determine the working capital required by the Company;

Annual sales	Rs.14,40,000
Cost of production (including depreciation of Rs.1,20,000)	Rs.12,00,000
Raw material purchases	Rs. 7,05,000
Monthly expenditure	Rs. 30,000
Estimated opening stock of raw materials	Rs. 1,40,000
Estimated closing stock of raw materials	Rs. 1,25,000

Inventory Norms;
Raw materials 2 months, Work in process ½ month, finished goods 1 month. The firm enjoys a credit of half a month on its purchases and allows one month credit on its supplies. On sales orders, the company receives an advance of Rs.15,000. You may assume that production is carried out evenly through out the year and minimum cash balance desired to be maintained is Rs.35,000

6.a) Discuss about the cash management techniques.

(OR)

b) A firm uses 5000 units of product for year. Its carrying cost per unit is Rs.12 and ordering cost is Rs.50. its takes 10 days to receive a shipment after an order is iniated and the firm intends to hold inventories for 15 days usage as a safety stock. Calculate the EOQ and Reorder point.

SECTION-C

7. Case Study: 1 x 10 = 10 marks

The following figures related to Two Companies

	Rs. in lakhs	
	P Ltd.	Q Ltd.,
Sales	500	1,000
Variable costs	200	300
Contribution	300	700
Fixed costs	150	400
	150	300
Interest	50	100
Profit before tax	100	200

You are required to :

1. Calculate the operating, financial and combined leverage for the Two Companies .