PVP 12

Code: **BA2T1**

I MBA - II Semester - Regular Examinations - AUGUST 2015

FINANCIAL MANAGEMENT

Duration: 3 hours Max. Marks: 70 M

SECTION-A

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

a. Wealth maximization
b. Gordon Model
c. Bonus shares
d. Components of working capital
e. Miller's Model of capital structure
f. Operating leverage
g. Transaction motive
h. Investment decision

SECTION – B

Answer the following: 5 x 10 = 50 M

2. a) Explain the linkages between finance function and other related disciplines.

OR

b) An educational institution is planning to install air conditioners for its new computer centre. It has received 2 proposals from the manufacturers. It gives you the information to evaluate and give recommendation on the basis of NPV method. The cost of capital is 10%.

Particulars	Year	Proposal 1	Proposal 2
Purchase Cost	0	₹ 1,50,000	₹ 1,80,000
Operating Cost	1	₹ 20,000	₹ 25,000
	2	₹ 20,000	₹ 25,000
	3	₹ 20,000	₹ 25,000
	4	₹ 25,000	₹ 25,000
	5	₹ 25,000	₹ 25,000
	6	₹ 25,000	₹ 25,000
Salvage value	6	₹ (10,000)	₹ (25,000)

3. a) Explain Gordon's dividend model.

OR

b) Following are the details of two companies A Ltd and B Ltd who have their firm's rate of return (r) at 15% and 10% respectively. The k_e for each firm is 10% and EPS for each firm is ₹ 10. A Ltd and B Ltd follow Walter's Model of dividend. Calculate the value of equity if the firms were to pay 1) 50% and 2) 80%.

4. a) Explain Net Income and Net Operating Income approach of capital structure.

OR

b) In considering the most desirable capital structure of a company, the following estimates of the cost of debt and equity capital (after tax) have been made at various levels of debt equity mix.

Debt as % of total capital Employed	Cost of debt (%)	Cost of equity (%)
0	5.0	12.0
10	5.0	12.0
20	5.0	12.5
30	5.5	13.0
40	6.0	14.0
50	6.5	16.0
60	7.0	20.0

You are required to determine the optimum debt-equity mix for the company by calculating cost of capital.

5. a) Define Working capital. Explain factors affecting Working capital requirements in an organization.

OR

b) The following information is given:

Cost of Goods sold	₹ 12800
Credit Sales	₹ 14750
Credit purchases	₹ 11370
Opening inventory	₹ 1270
Closing inventory	₹ 1400
Opening accounts receivables	₹ 3780
Closing accounts receivables	₹ 3360
Opening creditors	₹ 1790
Closing creditors	₹ 2030

Calculate inventory period, receivables period, payables period and cash cycle.

6. a) Explain the cash management techniques that can be used by the organization for speeding up cash collections and slowing disbursements.

OR

b) A firm has a total annual cash requirement of ₹ 10,00,000. It has marketable securities in hand that can be sold to raise cash. The company can earn 5% yield on its securities. Calculate the economic lot size of cash, using Boumol Model, if the cost involved to convert is ₹ 1000/- per transaction.

SECTION – C

7. Case Study **1 x 10 = 10 M**

The following data pertain to a shop. The owner has made the following information for the first 5 months of the coming year.

Months	Sales forecast ₹	Material ₹	Wages ₹	Overheads ₹
January	40,000	9600	3000	1700
February	45,000	9000	3000	1900
March	55,000	9200	3200	2000
April	60,000	10000	3600	2200
May	50,000	10400	4000	2300

Other data are as follows:

1. Cash sales are 40% of the sales forecast. 40% of credit sales are collected in the next month and the balance in the following month.
2. Time lags in period for payments are:
   One month for creditors;
   Half month for wages and overheads.
3. Cash balance on 1st March is ₹ 16,000
4. Plant and Machinery will be installed in February at a cost of ₹ 96,000. The monthly installment of ₹ 5000 is payable from March onwards.
5. Dividend is paid at 4% on capital of ₹ 200,000. This is paid on 1st April.