Code: **17BA2T1**

PVP 17

I MBA - II Semester – Regular/Supplementary Examinations
October 2020

FINANCIAL MANAGEMENT

Duration: 3 hours Max. Marks: 60

SECTION - A

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

a) Describe time value of money.
b) Define operating leverage.
c) What does the dividend decision involve?
d) List the determinants of working capital.
e) Why do the companies hold cash?

SECTION – B

Answer the following: 5 x 8 = 40 M

2. a) Define capital budgeting decision and write the investment evaluation criterion.

(OR)

b) A company is considering expanding its investments budget to include projects A and B, both the firms required the Initial investment of Rs. 1,00,000. The expected Cash Flows After Tax are as follows:

	Years	Project -A Rs.	Project -B Rs.
Cash inflows	1	28,000	26,400
	2	27,500	26,400
	3	26,000	26,400
	4	27,200	26,400
	5	24,500	26,400

You are required to calculate the NPV at a 10% discount factor and PBP, suggest to selecting the project.

3. a) Critically evaluate the MM capital structure theory.

(OR)

b) Zindal company Ltd. has a capital Structure exclusively of ordinary shares amounting to Rs. 5,00,000. The company desires to raise additional funds of Rs. 5,00,000 for financing its expansion programme. The company has two alternative financial plans:

i) It can rise by entire amount in the form of equity capital.

ii) It can raise 50% as equity capital and 50% as 5% Debentures.

The existing EBIT is Rs. 60,000; the tax rate is 50%; outstanding ordinary shares number 5000 and the market price per share is Rs. 100. Under all the two alternatives, which financing plan should the firm select?

4. a) Explain the dividend policy importance and write the types of Dividend policies.

(OR)

b) The earnings per share of XYZ Ltd., is Rs. 10 and rate of capitalization applicable to it is 10%. The company has the option of adopting a pay-out of 20% or 40% or 80%. By using Walter's formula compute the market value of the company's share if the rate of return is

i) 8 % ii) 10% iii) 12 %

5. a) Write the concept of Operating cycle. Why it is important in working Capital Management? Explain.

(OR)

b) From the following, prepare a statement showing the working capital requirements for a level of activity at 1,56,000 units of production.

Particulars	Per unit cost in Rs.
Raw Materials	90
Direct labour	40
Over heads	75
Total cost	205
Profit	60
Selling price per unit	265

Additional information:

i) Raw materials are in stock, on average one month.
ii) Materials are in process on average 2 weeks.
iii) Finished goods are in stock, on average one month.
iv) Credit allowed by suppliers one month.
v) Time lag in payment from debtors, 2 months.
vi) Average time-lag in payment of wages 2 weeks.
vii) Average time-lag in payment of overheads is one month.

25% of the production is sold against cash; cash in hand and at Bank is expected to be Rs. 60,000.

6. a) Write the characteristics of Marketable securities, how do you alternate? Explain.

(OR)

b) From the following information, calculate average collection period:

Total sales Rs. 1,00,000
Cash sales Rs. 20,000
Sales returns Rs. 7,000
Debtors at the end of the year Rs. 11,000
Bills receivables Rs. 4,000
Creditors Rs. 15,000
Net profit @ 30%
Debtors at the beginning of the year 15000

SECTION-C

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

Abi Ltd. Needs Rs. 10,00,000 for expansion. The expansion is expected to yield an annual EBIT of Rs. 1,60,000. In choosing a financial plan, Abi Ltd. has an objective of maximizing earnings per share. It is considering the possibility of issuing equity shares and raising debt of Rs. 1,00,000 or Rs. 4,00,000 or Rs. 6,00,000. The current market price per share is Rs. 25 and it is expected to drop to Rs. 20, if the funds are borrowed in excess of Rs. 5,00,000. The funds can be borrowed at the rates indicated below:

(i) Up to Rs.1,00,000 at 8%.
(ii) Over Rs. 1,00,000 up to Rs. 5,00,000 at 12%;
(iii) Over Rs. 5,00,000 at 18%.

Assume a tax rate of 50 %. Determine the EPS for the three financing alternatives.