PVP 17

Code: 17BA2T1

I MBA - II Semester – Regular/Supplementary Examinations
April 2019

FINANCIAL MANAGEMENT

Duration: 3 hours Max. Marks: 60

SECTION - A

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

a) Capital budgeting.
b) Capital structure.
c) Share splits.
d) Working capital.
e) Management of inventory.

SECTION – B

Answer the following: 5 x 8 = 40 M

2. a) What is capital budgeting and explain its techniques of capital budgeting?

(OR)

b) A Company is considering 2 mutual exclusive projects. Both require an initial investment of Rs. 50,000/- each and have a life of 5 years .The cost of capital of the company is 10% and tax rates is 50% . The deprecation is charged on straight line method . The estimated net cash inflows (Before depreciation and tax) of the 2 projects are as follows

Years	Project A	Project B
1	20,000	30,000
2	22,000	27,000
3	28,000	22,000
4	25,000	25,000
5	30,000	20,000

Which project should be accepted as per NPV?

3. a) What do you understand by simple capital structure and complex capital structure. Explain the net operating income theory of capital structure planning ?

(OR)

b) X Ltd. is expecting an annual EBIT of Rs.1,00,000/- the company has Rs.4,00,000/- in 10% debenture. The equity capitalization rate is 12% . The company decides to raise Rs.1,00,000/- by issue of 10% debentures and use the proceeds there of to redeem equity shares you are required to calculate the total value of the firm and also the overall cost of capital?

4. a) Discuss Walters model and Gorden model of share valuation Visa–vis dividend policy?

(OR)

b) A chemical company belongs to a Risk class for which the appropriate P/E ratio is10%. It currently has 50,000 equity shares outstanding selling at Rs. 100/- each the firm is contemplating the declaration of dividend of Rs. 8/- per share at the end of current fiscal year which has just started. Given the assumptions of Modigliani and Miller, answer the following questions:

I) What will be the price of the share at the end of the year

i) If dividend is not declared.

ii) If it is declared.

II) Assuming that the company pays the dividend has a net income (Y) of Rs.5,00,000/- and makes new investment of Rs.10,00,000 /-during the period, how many new shares must be issued .

5. a) Define working capital. Distinguish between permanent and temporary working capital?

(OR)

b) Musa limited has budget its sales to be Rs.7,00,000/- p.a. its costs as a percentage of sales are as following

Particulars	%
Raw materials	20
Direct labour	35
Overhead	15

Raw materials are carried in stock for 2 weeks and finished goods are held in stock before sales are 3 weeks, production takes 4 weeks credit from suppliers and given 8 weeks credit to its customers. If both overheads and production are incurred evenly through the years, what is Musa Limited total working capital requirement.

6. a) What are the different aspects stages of cash management ?

(OR)

b) ABC Ltd. a newly started company, whishes to prepare cash budget from January.
Prepare cash budget for the first 6 months from the following estimated Revenue and Expenses.

Months	Total sales	Materials	Wages	Production overhead	Selling and distribution overhead
Jan	20,000	20,000	4,000	3,200	800
Feb	22,000	14,000	4,400	3,300	900
Mar	28,000	14,000	4,600	3,400	900
Apr	36,000	22,000	4,600	3,500	1,000
May	30,000	20,000	4,000	3,200	900
June	40,000	25,000	5,000	3,600	1,200

Cash balance on 1st January was Rs. 10,000/- ,A new Machinery is to be installed at Rs. 20,000/- on credit, to be paid by two equal installments in March and April. Sales commission @ 5 % on total sales is to be paid within a month, following actual sales.

Rs.10,000/- being the amount on 2nd call may be received in March. Share premium amounting to Rs.2,000/- is also, obtainable with the 2nd call.
Period of credit allowed by suppliers 2 months
Period of credit allowed to customer 1 month
Delay in payment of overheads 1 month
Delay in payment of wages ½ month
Assume cash sales to be 50 % of the total sales.

SECTION-C

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

A limited company is considering investing in a project requiring a capital outlay of Rs. 2,00,000/- . Forecast for annual income after depreciation but before tax is as follows

Years	Amount Rs
1	1,00,000
2	1,00,000
3	80,000
4	80,000
5	40,000

Depreciation may be taken 20 % on original cost and taxation at 50 % of net income. You are required to evaluate the project according to

a) PBP
b) ARR
c) NPV (cost of the capital is 10 %)
d) IRR