Code: **BA2T1**

PVP 12

I MBA - II Semester – Regular/Supplementary Examinations – July 2017

FINANCIAL MANAGEMENT

Duration: 3 hours Max. Marks: 70 M

SECTION-A

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

a) Profit vs Wealth maximisation
b) NI approach
c) Factors of Dividend
d) Operating cycle
e) Pay back method
f) Combined leverage
g) Weighted average cost of Capital
h) EOQ

SECTION – B

Answer the following: 5 x 10 = 50 M

2. a) Describe the close relationship between economics and finance and explain the functions of finance.

(OR)

b) A company is considering two exclusive projects, A and B. Project A involves an outlay of Rs.100 crores which will generate an expected cash inflow of Rs. 25 crores per year for 6 years. Project B calls for an outlay of Rs.50 crores which for 6 years will produce an expected cash inflow of Rs.13 crores per year. The company's cost of capital is 12 percent.
Calculate:

a) Payback period of each project

b) NPV and IRR of each project

3. a) "Share capital is better than debt capital" In the favor of this statement explain one factor which affects the capital structure.

(OR)

b) A company expects a net operating income of 100000. It has 500000 at 6% Debentures the overall capitalisation rate is 10% calculate the value of the firm and the equity capitalisation rate according to the net operating income approach

4. a) What are the essentials of Gordon's dividend model? Explain Gordon's share price valuation formulae.

(OR)

b)

Xltd	Yltd	Zltd
R=15%	R=10%	R=7%
K=10%	K=10%	K=10%
E=Rs10	E=Rs10	E=Rs10

Find out the market values when payout ratio is 40%, 60%, 90% according to walter theory.

5. a) What do you understand by the working capital? Explain briefly the factors determining the working capital of an organization.

(OR)

b) While preparing a project report on behalf of a client you have collected the following facts. Estimate the net working capital required for that project. Add 10% contingencies:

Estimated cost per unit of production:	
Raw Material	Rs. 80
Direct labour	Rs. 30
Overheads	Rs. 60
Total cash cost	Rs. 170

Additional Information:
Selling price per unit Rs 200.
Level of activity 1,04, 000 units of production per annum
Average raw material in stock, 4 weeks
Average Work in progress, 2 weeks
Average Finished goods in stock, 4 weeks
Average Credit allowed by suppliers, 4 weeks
Average Credit allowed to debtors, 8 weeks
Lag in payment of wages, average 1.5 weeks
Cash at bank is expected to be Rs 25, 000
You may assume that production is carried on evenly through out the year and wages and overheads accrue similarly. All sales are on credit basis only.

6. a) What is meant by Inventory Management? Why is it essential to a business concern?

(OR)

b) Prepare Cash Budget

Month	Sales	Purchases	wages
February	180000	124800	12000
March	192000	144000	14000
April	108000	243000	11000
May	174000	246000	10000
June	126000	268000	15000

- 50% of the credit sales are realized in the month following the sales and the remaining sales in second month following
- Creditors are paid in the following month of purchase, Payment of wages one month lag.
- Cash at bank on 1st April 25000 prepare cash budget from April to June 2011

SECTION –C

Case Study 1X10=10 M

7. Ever-Responsive Ltd is a widely-held company. It is considering a major expansion of its production facilities and the following alternatives are available :

   Particulars Alternatives

	A (Rs.)	B (Rs.)	C (Rs.)
Share capital	50,00,000	20,00,000	10,00,000
14% debentures	–	20,00,000	15,00,000
18% Preference shares	–	10,00,000	25,00,000

- Expected rate of return before tax is 25%.
- The rate of equity dividend of the company has been not less than 20%.
- Taxation rate applicable to the company is 50%.
- Assuming that at present, there is no debt, which alternative financing strategy do you recommend? And why?