Assuming monthly sales of 2,500 units, estimate the Net working capital requirement if the desired cash balance is 5% of the gross working capital requirement, and work in progress is 25% complete with respect to manufacturing expenses. 10

A (Printed Pages 8)

Roll No. ____________

MS-3083

M.B.A. (Second Semester)

Examination, 2015

FINANCIAL MANAGEMENT

(CP-204)

Time Allowed : Three Hours] ***[Maximum Marks : 70***

Note : Attempt five questions in all. Question No. 1 is compulsory. In addition select one question from each unit. Use of Financial / Scientific calculator is permitted.

1. Write short notes on the following : 3×10=30

   (a) Agency problem and goal of financial management.

   (b) Discounted vs. non discounted cash flow (DCF) technique of capital budgeting.

   (c) Weighted Average Cost of Capital (WACC).

(d) Combined Leverage.

(e) Super Quick Ratio

(f) Determinants of an optimum capital structure

(g) Superiority of NPV over IRR

(h) Risks and uncertainty in capital budgeting

(i) Selective inventory control technique

(j) Managing the float

Unit - I

2. Presented below is the financial information of two companies-A and B, belonging to the same industry :

Ratios	Company-A	Company-B
Current Ratio	3 : 1	2 : 1
Acid-test Ratio	1.7 : 1	1.2 : 1
Debt equity Ratio	3 : 7	2 : 3
No. of times interest earned	6	5

Assume you are a loan officer of a bank, and both the companies have requested a loan of

Unit-IV

8. (a) Explain the factors influencing or the determinants of working capital requirement in a business concern.

(b) Suggest important measures to optimize the various components of working capital. (5+5)

9. X Limited plans to sell 30,000 units next year. The expected cost of goods sold is as follows:

	per unit (Rs.)
Raw Materials	100
Manufacturing Expenses	30
Selling, Administrative and financial expenses	20
Selling price	200

The duration of various stages of operating cycle is expected to be as follows :

Raw material stage	2 months
Work in progress stage	1 month
Finished stage	1/2 month
Debtors stage	1 month

rate and the annual cash inflows from 1 to 5 years are given below :

Years	PV of Re 1 at 16%	Cash Inflows (Rs.)
1	0.862	70,000
2	0.743	80,000
3	0.641	1,00,000
4	0.552	1,10,000
5	0.476	90,000

On the basis of above information you are required to :

(a) Compute discounted payback period

(b) Compute Net Present Value (NPV)

(c) Compute Profitability Index (PI)

(d) Comment on the acceptability aspect of the project (3+3+2+2)

5. Following information is available about the capital structure of a company :

(i) Company sells 7-years Rs. 100 bond for a price of Rs.97. The bond is redeemable

at a premium of 5%. Coupon rate of interest is 15% and the corporate tax rate is 45%

(ii) Company issues Rs. 100 face value 10% irredeemable preference shares at Rs. 105. Flotation cost is 8%

(iii) The current market price of equity share of the company is Rs. 134. The company paid Rs.4 per share dividend in the current year. Expected growth in dividend is 5%.

You are required to :

(a) Calculate the after tax cost of redeemable bonds.

(b) Calculate the cost of irredeemable preference shares.

(c) Calculate the cost of equity share capital

(d) Calculate WACC if debt capital, preference share capital and equity share capital are in the proportion of 1:1:3 respectively.

(2+2+2+4)

Unit-III

6. What is meant by operating and financial leverages? Explain the benefits and limitations of both the leverages. (5+5)

7. X Limited is considering three different plans to finance its total project costs of Rs. 100 lacs. These three plans are :

(Rs. in Lacs)

Capital	Plan-A	Plan-B	Plan-C
Equity (Rs. 100 per share)	50	34	25
8 % Debentures	50	66	75
Total	100	100	100

Sales are estimated to be Rs.150 lacs and a 10% profit before interest and tax is forecast to be achieved. Corporate tax rate is assumed to be 50%. On the basis of EBIT-EPS relationship of capital structure, decide which of the three financing alternatives is the best suited for X Limited. 10

equal amount to be repaid over the next two years. Based on the information above, answer the following questions.

(a) If you could grant loan to only one company which would it be? Explain.

(b) If you could grant loan to both the companies would you be willing to do so? Explain. 10

3. Explain how the shareholders' Wealth Maximization objective is realised while executing basic corporate financial functions by the finance manager. 10

Unit-II

4. A company is considering a capital investment project whose initial capital outlay is Rs. 2,40,000 and its life in 5 years. There is no scrap value at the end of the life of the project. The opportunity cost of capitals is 16%. Present value factor of Re 1 at 16% discount