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MBA - II Sem.

2M6202

Roll No. : ______________________________ Total Printed Pages : 4

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M. B. A. (Sem. II) (Main & Back) Examination, June / July - 2011
M-202 Financial Management

Time : **3** Hours] [Total Marks : **70**
[Min. Passing Marks : **28**

The question paper is divided in two sections. There are sections A and B. Section A contains 6 questions out of which the candidate is required to attempt any 4 questions. Section B contains short case study/application based question which is compulsory. All questions are carrying equal marks.

Use of following supporting material is permitted during examination. *(Mentioned in form No. 205)*

1. ______________________ 2. ______________________

SECTION - A

1 Explain as to how the wealth maximization objective is superior to profit maximization objective ? **14**

2 (a) Explain the Lock-Box System.

(b) The Board of Directors of Ruby Ltd. requests you to prepare a statement showing the working capital requirements forecast for a level of a activity of 1,56,000 units of production. The following information is available for your calculation.

Particulars	Rs. (per unit)
Raw Materials	90
Direct Labour	40
Overhead	75
Total	205
Profit	60
Selling price per unit	265

Raw materials are in stock on average one month
Materials are in process on average 2 weeks

Finishing goods are in stock, on average one month

Credit allowed by suppliers - one month

Time lag in payment from debtors - 2 months

Lag in payment of wages - 1.5 weeks

Lag in payment of overheads - one month

Add 10% to calculated amount of contingencies.

20% of the output is sold against cash. Cash in hand and at bank is expected to be Rs. 60,000. It is to be assumed that production is carried on evenly throughout the year. Wages and overheads accrue similarly and a time period of 4 weeks is equivalent to a month.

4+10

3 (a) What is "optimum capital structure" ? – Explain.

(b) A company has the following capital structure on 31-12-2003

	Rs.
Equity Capital (20,000 shares)	10,00,000
10% Preference share capital	2,50,000
14% Debentures	7,50,000
	20,00,000

The Company's share is currently selling at Rs. 20. Next year expected dividend is Rs. 2 per share that will grow at 6 percent forever. The company is in the tax bracket of 50 percent. You are required to calculate :

(a) WACC based on the existing capital structure.

(b) New WACC if the company raises an additional Rs. 5,00,000 debts by issuing 15 percent debentures. This will increase the existing dividend by Re. 1 and leave growth rate unchanged, but the price of share will fall to Rs. 15.

4+10

4 (a) Write a brief note on CAPM.

(b) Prepare income statements of the P and Q firms.

Particulars	P	Q
Corporate tax (%)	40	40
Interest p.a. (Rs.)	12,00,000	10,00,000
Operating leverage	2	4
Financial leverage	2	3
Variable cost (%) of sales	60	50

6+8

5 (a) Examine the factors determining the dividend policy of a company.

(b) From the following data determine price per share According to Walter's Model and comment.

Particulars	ABC Co.	XYZ Co.
Earnings per share Rs.	10	10
Cost of Capital (%)	12	12
Return on investment (%)	15	15
Dividends per share Rs.	8	5

7+7

6 (a) EXE limited has received an offer of quantity discount on its order of material as under :

Price per tonne (Rs.)	Tones (Nos.)
1200	Less than 500
1180	500 and less than 1000
1160	1000 and less than 2000
1140	2000 and less than 3000
1120	3000 and above

The annual requirement for the material is 5,000 tones. The ordering cost per order is Rs. 1,200 and stock holding cost is estimated at 20% of material cost per tonne. You are required to compute the most economic purchase level.

What will be your answer to the above question if there are no discount offered and the price per tonne is Rs. 1,500 ?

(b) The risk free rate is 5% and the market risk premium is 8.6% and Beta of security is 2.83, what is the expected return of the security under CAPM.

10+4

SECTION - B

7 A company is considering purchase of machinery which costs Rs. 8,00,000 and which has an estimated life of 10 years. This machine will generate additional sales of Rs. 4,00,000 per year while increased costs and maintenance will be Rs. 1,00,000 per year. The cost of the machine is depreciated on a straight line and has no salvage value at the end of its 10 years life. The company has a cost of capital of 12 percent and a corporate tax rate of 40 percent.

You are required to calculate :

(a) Annual cash flow

(b) The Net Present Value

(c) Profitability Index

(d) The payback period

(e) Internal rate of return.

Should the company purchase the new machine ?

14
