C 23631 (Pages : 4) Name..

Reg. No..................................

SECOND SEMESTER M.B.A. DEGREE EXAMINATION, JUNE 2017

BUS 2C 12—FINANCIAL MANAGEMENT

(2013 Admissions)

Time : Three Hours Maximum : 36 Weightage

FM

Part A

Answer **all** *questions.*
Each question carries 1 *weightage.*

1. What is the difference between Market value *vs.* Intrinsic value ?
2. How equity shares are different from debts ?
3. Difference between dividend and depreciation.
4. What is undercapitalization? How it is important in running company ?
5. What is indifferent point in MM theory ?
6. Define capital structure.

(6 × 1 = 6 weightage)

Part B

Answer any **six** *questions.*
Each question carries 3 *weightage.*

7. Explain briefly Walter and Gorden model.
8. What are the steps involved in capital budgeting ?
9. Explain briefly the similarities and dissimilarities between NPV and IRR and NPV and profitability index.
10. Explain briefly the technique involved in cash management. What is the role of committees on working capital ?
11. Explain briefly the Pros and Cons of Leasing.
12. A machine purchased four years ago has been depreciated to its current book value of Rs. 50,000. The machine originally had a projected life of 10 years and zero salvage value.

    A new machine will cost Rs. 80,000. Its installation cost estimated by the technician is Rs. 20,000. The technician also estimates that the installation of the new machine will result in a reduced operating cost of Rs. 30,000 per year for the next 6 years. The old machine would be sold for Rs. 20,000. The new machine will have a 6-year life with no salvage value. The company's income is taxed at 35. Assuming the cost of capital at 10 per cent, determine whether the existing machine should be replaced. Make your own assumption regarding depreciation of the machine.

Turn over

13. From the following budget data, forecast the cash position at the end of April, May and June 2008 :

Month	Sales Rs.	Purchases Rs.	Wages Rs.	Miscellaneous Rs.
Feb.	1,20,000	84,000	10,000	7,000
March	1,30,000	1,00,000	12,000	8,000
April	80,000	1,04,000	8,000	6,000
May	1,16,000	1,06,000	10,000	12,000
June	88,000	80,000	8,000	6,000

Additional Information :

- Sales 20% realised in the month of sales, discount allowed 2%. Balance realised equally in two subsequent months.
- Purchases : These are paid in the month following the month of supply.
- Wages 25% paid in arrears following month.
- Miscellaneous expenses. Paid a month in arrears.
- Rent Rs. 1,000 per month paid quarterly in advance due in April.
- Income-tax : First instalment of advance tax Rs. 25,000 due on or before 15th June.
- Income from investments Rs. 5,000 received quarterly in April. July. etc.
- Cash in hand : Rs. 5,000 on 1st April, 2008.

14. The firms A and B are identical in all respects including risk factors except for debt equity mix. Firm A has issued 12% debentures of Rs. 15 lakhs while B has issued only equity. Both the firms earn 30% before interest and taxes on their total assets of Rs. 25 lakhs. Assuming a tax rate of 50% and capitalisation rate of 20% for an all—equity company, you are required to compute the value of the two firms using (i) Net Income Approach ; and (ii) Net Operating Income Approach.

(6 × 3 = 18 weightage)

Part C

Answer any **two** *questions.*
Each question carries 6 weightage.

15. A company expects to have Rs. 25,000 in bank on 1st May 2008 and requires you to prepare an estimate of cash position during the three months—May, June and July, 2008.

The following information is supplied :

Month	Sales Rs.	Purchases Rs.	Wages Rs.	Office Expenses Rs.	Factory Expenses Rs.	Selling Expenses Rs.
March	50,000	30,000	6,000	4,000	5,000	3,000
April	56,000	32,000	6,500	4,000	5,500	3,000
May	60,000	35,000	7,000	4,000	6,000	3,500
June	80,000	40,000	9,000	4,000	7,500	4,500
July	90,000	40,000	9,500	4,000	8,000	4,500

Other Information :

(i) 20% of sales are in cash, remaining amount is collected in the month following that of sales.

(ii) Suppliers supply goods at two month's credit.

(iii) Wages and all other expenses are paid in the month following the one in which they are incurred.

(iv) The company pays dividends to shareholders, and bonus to workers of Rs. 10,000 and Rs. 15,000 respectively in the month of May.

(v) Plant has been ordered and is expected to be received in June. It will cost Rs. 80,000 to be paid in June.

(vi) Income tax Rs. 25,000 is payable in July.

16. Prepare a working capital forecast from the following information :

Issued Share Capital	4,00,000
6% Debentures	1,50,000

The fixed assets are valued at Rs. 3 lakhs Production during the previous year is 1 lakh units. The same level of activity is intended during the current year.

The expected ratios of cost to selling price are :

Raw Materials	50%
Direct Wages	10%
Overheads	25%

The raw materials ordinarily remain in stores for 2 months before production. Every unit of production remains in process for 2 months and is assumed to be consisting of 100% of raw material, wages and overheads.

Finished goods remain in the warehouse for 4 months. Credit allowed by creditors is 3 months from the date of delivery of raw materials and credit given to debtors is 3 months from the date of despatch.

Selling price is Rs. 6 per unit. Both production and sales are in a regular cycle.

17. XY Ltd. needs Rs. 50,00,000 for the installation of a new factory the new factory is expected to yield annual Earnings Before Interest and Tax (EBIT) of Rs. 10,00,000. In choosing a financial plan, XY Ltd. has an objective of maximising earnings per share. It is considering the possibilities of issuing ordinary shares and raising debt of Rs. 5,00,000 or Rs. 20,00,000 or Rs. 30,00,000. The current market price per share is Rs. 300 and is expected to drop to Rs. 250 if the funds are borrowed iii excess of Rs. 20,00 000. Funds can be raised at the following rates. Upto Rs. 5,00,000 at 10%, Over Rs. 5,00,000 to Rs. 20,00,000 at 15%, Over Rs. 20,00,000 at 20%.

Assuming a tax rate of 50%, advise the company.

(2 × 6 = 12 weightage)