Reg. No. : | | | | | | | | | | | | | |

Question Paper Code : BS2011

M.B.A. DEGREE EXAMINATION, AUGUST/SEPTEMBER 2017.

Second Semester

DBA 1654 — FINANCIAL MANAGEMENT

(Regulations 2007/2009)

Time : Three hours | Maximum : 100 marks

Answer ALL questions.

PART A — (10 × 2 = 20 marks)

1. What is intrinsic value?
2. What is interest rate risk?
3. What is implicit cost of capital?
4. What is capital rationing?
5. What is financial structure?
6. What is optimum capital structure?
7. What is factoring?
8. What is commercial paper?
9. What is Initial Public Offer?
10. What is operating lease?

PART B — (5 × 16 = 80 marks)

11. (a) "A rational human being has a time preference for money". Give reasons.

Or

(b) You are evaluating the yield on a callable bond, with a 10-year maturity and a 9% coupon rate. The bonds can be called back at 110% of par in 3 years. The bond is trading at Rs.950.

(i) Estimate the yield to maturity.

(ii) Estimate the yield to call.

(iii) Which of the two would you use in analyzing the bond?

12. (a) What are the differences between NPV and IRR?

Or

(b) Calculate internal rate of return from the following information:

Particulars	Amount (Rs.)
Initial investment	60,000
Life of the asset	4 years
Estimated net annual cash flows:	
1st year	15,000
2nd year	20,000
3rd year	30,000
4th year	20,000

13. (a) What are the factors that affect dividend policy? Briefly discuss each of them.

Or

(b) The data relating to two companies are as given below:

Particulars	Company - A	Company — B
Capital (Rs.)	6,00,000	3,50,000
Debentures (Rs.)	4,00,000	6,50,000
Output per annum (Units)	60,000	15,000
Selling price (per unit)	30	250
Fixed cost (per annum)	7,00,000	14,00,000
Variable cost (per unit)	10	75

You are required to calculate operating, financial and combined leverages of the two companies.

14. (a) What are the factors affecting working capital management decisions?

Or

(b) From the following information of Ruthvik Limited, you are required to calculate

(i) Net Operating Cycle Period,

(ii) No. of Operating Cycles in a Year.

		Rs.
1	Raw material inventory consumed during the year	6,00,000
2	Average stock of raw material	50,000
3	Work-in-progress inventory	5,00,000
4	Average work-in-progress inventory	30,000

5	Finished goods inventory	8,00,000
6	Average finished goods stock held	40,000
7	Average collection period from debtors	45 days
8	Average credit period availed	30 days
9	No. of days in a year	360

15. (a) Explain the recent developments in the Indian new issue market.

Or

(b) What is venture capital finance? Explain the modes of financing used by venture capitalists.

Reg. No. :

Question Paper Code : S1011

M.B.A. DEGREE EXAMINATION, FEBRUARY/MARCH 2016.

Second Semester

DBA 1654 — FINANCIAL MANAGEMENT

(Regulations 2007/2009)

Time : Three hours Maximum : 100 marks

Answer ALL questions.

PART A — ($10 \times 2 = 20$ marks)

1. What is meant by time value of money?
2. What is meant by portfolio risk?
3. Explain capital rationing.
4. How would you compute cost of retained earnings?
5. What is trading on equity?
6. State any two forms of dividend.
7. What is meant by EOQ?
8. Write a note on Lock Box system.
9. Why preferences share is called as a hybrid security?
10. State the role of Bull and bear in the stock market?

PART B — ($5 \times 16 = 80$ marks)

11. (a) (i) " Finance function is closely related to other functions". Discuss. Also , state the objectives of financial management. (10)

(ii) Shanthi Motors is currently selling bond at Rs. 1,000 (face value Rs. .900) it has a 10% interest rate, with a maturity period of 10 years. Calculate its yield to maturity. (6)

Or

(b) (i) What is risk? Explain its types. Discuss the methods of calculating risk. (10)

(ii) A portfolio consists of three securities P,Q and R with the following parameters : (6)

	P	Q	R	Cor
Expected return (%)	25	22	20	
Standard deviation	30	26	24	

Correlation :

PQ	−0.50
QR	+0.40
PR	+0.60

If the securities are equally weighted, how much is the risk and return of the portfolio of these three securities?

12. (a) Saravana Ltd. has the following Capital Structure as per its Balance Sheet as at 31st March, 2009. (16)

	In Lakhs
Equity Share Capital (fully paid shares of Rs.10 each)	4,00,000
18% Preference Share Capital (fully paid shares of Rs.100 each)	3,00,000
Retained Earnings	1,00,000
12.5% Debentures (fully paid of Rs100 each)	8,00,000
12% Term Loan	4,00,000
Total	20,00,000

Additional Information:

(i) Currently quoted prices in the stock exchange:

Equity shares @ Rs.64.25; Preference Shares @ Rs.90, Debentures @ Rs.95.

(ii) For the last year, the Company had paid equity dividend of Rs.8 per share which is expected to grow @ 5% pa. forever.

(iii) The Corporate Tax Rate is 30 %.

Calculate weighted average cost of capital using

(1) Book value weights

(2) Market value weights.

Or

(b) A firm has two investment opportunities, each costing Rs.1 00,000 and each having an expected profit as show below. (16)

Year	Project A (Rs)	Project B(Rs)
1	50,000	20,000
2	40,000	40,000
3	30,000	50,000
4	10,000	60,000

After giving due consideration to the risk criteria in each project the management has decided that project A should be evaluated at a 10 per cent cost of capital and project B, a risky project with a 15 per cent cost of capital. Compute the NPV and suggest the course of action for the management if:

(i) Both the projects are independent,

(ii) Both are mutually exclusive.

13. (a) (i) Distinguish between operating and financial leverage. (8)

(ii) What is point of indifference? How would you compute it? (8)

Or

(b) Critically analyze the assumptions of MM Hypothesis of irrelevance theory. Explain the arbitrage process. (16)

14. (a) Write short notes on the following (16)

(i) Cash Budget

(ii) Credit policy

(iii) Certificate of Deposit

(iv) Operating cycle.

Or

(b) (i) Describe the motives of holding cash. (6)

(ii) State the determinants of an optimum working capital requirements for a manufacturing firm. (10)

15. (a) (i) Explain debentures as a long term source of finance. (8)

(ii) Describe the role of the primary market in mobilizing funds. (8)

Or

(b) State the features of venture capital. Discuss in detail the process of selection of investment by venture capitalists. (16)

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Reg. No. : [ ][ ][ ][ ][ ][ ][ ][ ][ ][ ][ ][ ]

Question Paper Code : 80011

M.B.A. DEGREE EXAMINATION, AUGUST 2015.

Second Semester

DBA 1654 — FINANCIAL MANAGEMENT

(Regulations 2007/2009)

Time : Three hours

Maximum : 100 marks

Answer ALL questions.

PART A — ($10 \times 2 = 20$ marks)

1. Define risk.
2. What is time value of money?
3. What is payback period?
4. What is capital rationing?
5. What is specific cost of capital?
6. Define share splits.
7. What is net working capital?
8. State the motives of holding cash.
9. What is financial lease?
10. What is venture capital financing?

PART B — ($5 \times 16 = 80$ marks)

11. (a) Discuss in detail about the evolution and functions of financial management.

Or

(b) Sharada Manufacturing needs Rs.80,000 for a 3 year period. A local bank will provide a 3 year discount loan at a stated rate of 10%. Determine how much Sharada must borrow in order to have use of the Rs.80,000. Also calculate the effective rate of interest on the loan.

12. (a) Describe the important steps involved in the capital budgeting process.

Or

(b) A certain project has yearly after-tax cash outflows and inflows as tabulated below:

Period	Outflows (Rs.)	Inflows (Rs.)
0	25,000	0
1	12,500	7,500
2	0	10,000
3–6	0	12,500

Determine the payback period.

13. (a) What are the advantages of a stock split or dividend over a cash dividend?

Or

(b) Hindalco Company has the following income statement for 2014:

Particulars	Rs. (Crores)
Sales	500
Variable operating costs	100
Fixed operating costs	200
EBIT	200
Interest	50
EBT	150
Tax (40%)	60
EAT	90
Preference Dividend	10
Earnings available to equity shareholders	80

Compute Hindalco's operating, financial and combined leverages.

14. (a) What is the objective of the financial manager in cash management? What conditions must be satisfied in meeting this objective?

Or

(b) A firm expects a sale of 90,000 units purchased by the firm for Rs. 10 per unit. The order cost is Rs.25 and the firm's carrying cost as a percentage of the inventory value has been estimated at 15%. What is the economic order quantity?

15. (a) Explain the recent changes in the new issues market.

Or

(b) Explain the various long-term sources of financing for a manufacturing company.

Reg. No. :

Question Paper Code : 22013

M.B.A. DEGREE EXAMINATION, FEBRUARY/MARCH 2015.

Second Semester

DBA 1654 — FINANCIAL MANAGEMENT

(Regulations 2007/2009)

Time : Three hours Maximum : 100 marks

Answer ALL questions.

PART A — (10 × 2 = 20 marks)

1. What is finance?

2. Distinguish between uncertainty and risk.

3. What is capital rationing?

4. What is specific cost of capital?

5. What is stock dividend?

6. What is share split?

7. What are the motives of holding cash?

8. What is net working capital?

9. What is hire purchase?

10. What is venture capital financing?

PART B — (5 × 16 = 80 marks)

11. (a) What are the functions of financial management?

Or

(b) While you were a student in College, you borrowed ₹ 12,000 in student loans at an interest rate of 9% compounded annually. If you repay ₹ 1,500 per year, to the nearest year, will it take you to repay the loan?

12. (a) "The trouble with discounted cash flow techniques is that they ignore depreciation" Do you agree?

Or

(b) Rajan textiles is considering two investments each of which requires an initial investment of ₹ 1,80,000. The total cash in flows, that is profits after taxes and depreciation charges, for each project are :

Year	1	2	3	4	5	6	7
Project X (₹)	30,000	50,000	60,000	65,000	40,000	30,000	16,000
Project Y (₹)	60,000	1,00,000	65,000	45,000	-	-	-

Rajan's cost of capital is 8% Rank these investments by their excess present values. Which is the most profitable?

13. (a) "The cost of capital is a function of management preference". Discuss this statement.

Or

(b) Hind Company has the following income statement for 2013 :

Particular	₹ (Crore)
Sales	500
Less : Variables operating cost	100
	400
Fixed operating cost	200
EBIT	200
Interest	50
EBT	150
Tax (40%)	60
EAT	90

Calculate Hind's operating, financial and combined leverage.

14. (a) What is the general objective of accounts receivable management? In what ways is it similar and different from cash balance management and inventory management?

Or

(b) A firm expects a sale of 90,000 units purchased by the firm for ₹ 10 per unit. The order cost is ₹ 25 and the firm's carrying cost as a percentage of the inventory value has been estimated at 15%. What is the economic order quantity?

15. (a) Explain the sources of long-term finance with advantages and disadvantages.

Or

(b) Explain the differences between shares and debentures.

Reg. No. : [ ] [ ] [ ] [ ] [ ] [ ] [ ] [ ] [ ] [ ] [ ] [ ]

Question Paper Code : 96011

M.B.A. DEGREE EXAMINATION, FEBRUARY/MARCH 2014.

Second Semester

DBA 1654 – FINANCIAL MANAGEMENT

(Regulations 2007/2009)

Time : Three hours

Maximum : 100 marks

Answer ALL questions.

PART A — (10 × 2 = 20 marks)

1. Define financial management.
2. State the characteristics of bonds.
3. Explain the concept of cost of capital.
4. What is payback period?
5. Define operating leverage.
6. What is stock splits?
7. What do you mean by working capital cycle?
8. What is trade credit?
9. What are the sources of long term finance?
10. Define venture capital.

PART B — (5 × 16 = 80 marks)

11. (a) Explain why the concepts of risk and time value of money are important in making investment and financing decisions.

Or

(b) A bond is paying 10% interest per annum and is going to mature in the next two years. At maturity it will pay its principal amount of ₹. 100. If the expected return on bonds today are (i) 7%. (ii) 10% and (iii) 15%, what value would you pay for the bond today?

12. (a) Explain the different methods of evaluating Investment Projects with examples and their merits and demerits.

Or

(b) A company is considering raising of funds of about ₹ 100 lakhs by one of two alternative methods, namely 14% term loan and 13% non-convertible debentures. The term loan option would attract no major incidental cost. The debentures would have to be issued at a discount of 2.5% and would involve cost of issue of ₹ 1 lakh.

Advice the company as to the better option based on the effective cost of capital in each case. Assume a tax rate of 50%.

13. (a) Explain the different dividend payout methods. How do shareholders react to these methods?

Or

(b) A company has sales of ₹ 10,00,000, variable cost of 70%, total cost ₹ 9,00,000 and debt of ₹ 5,00,000 @ 10% rate of interest and its tax rate is 40%. What are the Financial, Operating leverages and Earning after tax? If the firm wants to double up its EBIT, how much of a rise in sales would be needed on a percentage basis?

14. (a) Define accounts receivables. What are the determinants of the size of investment in receivables?

Or

(b) Southern enterprises process orders of 100 units during one half of the months, 200 units during one-quarter of the months. Average inventory carrying costs per month at reorder points of 100, 200 and 300 units are ₹50, ₹100 and ₹175 respectively. Average ordering cost per month is ₹ 50 regardless of reorder point. The lost profit per unit of orders lost due to lack of inventory is ₹ 2.

Which reorder point of 100/200/300 will provide the lowest total inventory cost?

15. (a) Briefly explain the various methods of venture financing. What are the steps involved in a venture capital investment process?

Or

(b) A leasing company has been approached by prospective customer intending to acquire a machine whose cash down price is ₹ 3 crores. The customer, in order to leverage his tax position, has requested a quote for a three years lease with rentals payable at the end of each year but in a diminishing manner such that they are in the ratio of 3:2:1.

Depreciation can be assumed to be on straight line basis and marginal tax rate is 35%. The target rate of return on the transaction is 10%.

Calculate the lease rents to be quoted for the lease for three years.

The present value factors @ 10% are :

Year	1	2	3
P.V. factor @ 10%	0.91	0.83	0.75

Reg. No. : [| | | | | | | | | | |]

Question Paper Code : 86011

M.B.A. DEGREE EXAMINATION, AUGUST 2013.

Second Semester

DBA 1654 — FINANCIAL MANAGEMENT

(Regulation 2007/2009)

Time : Three hours　　　　Maximum : 100 marks

Answer ALL questions.

PART A — ($10 \times 2 = 20$ marks)

1. What is the present value of the following cash flow stream if the discount rate is 10%?

Year:	1	2	3	4	5
Cash Inflow:	5,000	6,000	8,000	10,000	9,000

2. What is Risk?

3. A company paid a dividend of Rs.2 per share, market price per share is Rs.20, income tax rate is 60% and brokerage is expected to be 2%. Compute the cost of retained earnings.

4. What is profitability index?

5. Distinguish between capital structure and financial structure.

6. What is scrip dividend?

7. List out the motives for holding cash.

8. What do you mean by "net 60"?

9. Distinguish between hire purchase and lease.

10. What are the objectives of secondary markets?

PART B — ($5 \times 16 = 80$ marks)

11. (a) Ruthvik recently purchased a bond with a Rs. 1,000 face value, a 10% coupon rate, and four years to maturity. The bond makes annual interest payments, the first to be received one year from today. Ruthvik paid Rs. 1,032,40 for the bond.

(i) What is the bond's yield to maturity?

(ii) If the bond can be called two years from now at a price of Rs. 1,100, what is its yield to call?

Or

(b) Mr. Rajesh invested in equity shares of Wipro Limited. Its anticipated returns and associated probabilities are given below:

Return %	–15	–10	5	10	15	20	30
Probability	0.05	0.10	0.15	0.25	0.30	0.10	0.05

You are required to calculate the expected rate of return and risk in terms of standard deviation.

12. (a) A company has to select one of the following two projects:

Particulars	Project–A (Rs.)	Project–B Rs.)
Cost	11,000	10,000
Cash Inflows:		
Year–1	6,000	1,000
Year–2	2,000	1,000
Year–3	1,000	2,000
Year–4	5,000	10,000

Use the internal rate of return method suggest which project is preferable.

Or

(b) Kakatiya Limited has provided the following information and requested you to calculate

(i) Weighted average cost of capital using book value weights and

(ii) Weighted marginal cost of capital (assuming that specified cost do not change) after additional capital has been raised.

Source of finance	Amount (Rs.)	Weights(%)	After tax cost (%)
Equity capital	14,00,000	0.452	9
Preference capital	8,00,000	0.258	12
Debentures	9,00,000	0.290	16

Kakatiya Limited wishes to raise an additional capital of Rs. 12,00,000 for the expansion of the project. The details areas follows:

Equity capital	Rs. 3,00,000
Preference capital	Rs. 3,00,000
Debentures	Rs. 6,00,000

13. (a) From the following particulars of Ganesh Limited, calculate operating and financial leverages. The company's current sales revenue is Rs. 15,00,000 and sales are expected to increase by 25%. Rs.9,00,000 are incurred on variable expenses for generating Rs. 15,00,000 sales revenue The fixed cost is Rs.2,50,000 The company has Rs.20,00,000 equity share capital and Rs. 20,00,000 10% debt capital. The face value of equity share is Rs. 10 and tax rate applicable to this company is 50%.

Or

(b) Given the following information about Rama Industries Limited show the effect of the dividend policy on the market price per share, using Walter's model. EPS = Rs.8; Cost of capital = 12%; Assumed rate of return:

(i) 15%

(ii) 10%

(iii) 12%.

14. (a) Explain the Baumol's Model of Cash Management.

Or

(b) Harshitha Limited is contemplating to liberalise its collection effort. Its present sales are Rs.10,00,000 its average collection period is 30 days. Its expected variable cost to sales ratio is 85% and its bad debt ratio is 5%. The company's cost of capital is 10% and tax rate is 40%. The proposed liberalization in collection effort increases sales to Rs.12,00,000, increases average collection period by 15 days, and increases the bad debts ratio to 7%. Determine the change in net profit.

15. (a) What are methods of floating new issues? Explain in detail.

Or

(b) Explain the structure of leasing industry in India.

Reg. No. : | | | | | | | | | | | | |

Question Paper Code : 86011

M.B.A. DEGREE EXAMINATION, FEBRUARY/MARCH 2013.

Second Semester

DBA 1654 — FINANCIAL MANAGEMENT

(Regulation 2007/2009)

Time : Three hours

Maximum : 100 marks

Answer ALL questions.

PART A — (10 × 2 = 20 marks)

1. What is risk return trade-off?

2. State the features of a bond.

3. What is Capital rationing?

4. State the objectives of capital budgeting.

5. What is optimum capital structure?

6. The selling price of a share is ₹ 56 and the company pays a dividend of ₹ 7 per share. Calculate cost of equity.

7. What is working capital gap?

8. What are the objectives of inventory management?

9. What are the various sources of long term finance?

10. What are the various disinvestment methods available to a venture capitalist?

PART B — (5 × 16 = 80 marks)

11. (a) 'The financial analyst should take into account time value of money to take objective decision' – Discuss.

Or

(b) A 20 year, 10%, ₹ 1,000 bond that pays interest half-yearly is redeemable in 12 years at a buy-back price of ₹ 1,150. The bond's current yield-to-maturity is 9.50% annually. You are required to determine :

(i) the yield-to-call

(ii) the yield-to-call if the buy-back price is only ₹ 1,100 and

(iii) the yield-to-call if instead of 12 years, the bond can be called in 8 years, buy-back price being ₹ 1,150.

12. (a) How would you apply the cost of capital concept when projects with different risks are evaluated?

Or

(b) A company has to make a choice between buying of two machines. Machine X would cost ₹ 1,00,000 and require cash running expenses of ₹ 32,000 p.a. Machine Y would cost ₹ 1,50,000 and its cash running expenses would amount to ₹ 20,000 p.a. Both the machines have a life of 10 years with zero salvage value. The company follows straight line method of depreciation and is subject to 50% tax on its income. The company's required rate of return is 10%. Which machines should it buy? Net present value of ₹ 1 p.a. for 10 years @ 10% discount rate is ₹ 6.1446.

13. (a) How do you design a capital structure of an organization? Explain the various operating leverage and revaluation of that organization's capital with an example.

Or

(b) From the following information, ascertain whether the firm's D/P ratio is optimal according to Walter. The firm is one year old with an equity capital of ₹ 1,00,00,000 of ₹ 200 each.

Earnings of the firm	₹ 10,00,000
Dividend paid	₹ 7,50,000
P/E Ratio	8

The firm is expected to maintain its current rate of earnings on investment.

What should be the P/E ratio at which D/P ratio will have no effect on the value of the share?

Will your decision change if the P/E ratio is 12.5 instead of 8?

14. (a) Describe the problems faced in determining the weighted average cost of capital (WACC). Explain the role of book value weights and market value weights in calculating WACC.

Or

(b) The Credit management of XYZ Co had to decide on a proposal for liberal extension of credit which will result in a slowing down process of the average collection period from 1 to 2 months. The company's product was sold for ₹ 20 per unit of which ₹ 15 represented variable cost. The current actual sales amounted to ₹ 24,00,000, represented entirely by credit sales. The average total cost per unit was ₹ 18. The relaxation in credit policy was expected to result in a 25% increase in sales i.e. ₹ 30,00,000 annually. The management aimed at a return of 25% on additional investment.

You help the Credit Manager in examining the financial implications of liberalizing the credit policy. (Assume 360 days in a year)

15. (a) Explain different forms of securities a public company can issue. Discuss their significance in relation to the financial structure of the company.

Or

(b) What is meant by stock market? How an organization releases the new issues in that market? List the various issues in that process.

Reg. No. :

Question Paper Code : 75511

M.B.A. DEGREE EXAMINATION, AUGUST 2012.

Second Semester

DBA 1654 — FINANCIAL MANAGEMENT

(Regulation 2007/2009)

Time : Three hours   Maximum : 100 marks

(Present value tables are required)

Answer ALL questions.

PART A — ($10 \times 2 = 20$ marks)

1. Define time value of money.
2. Distinguish between bond and equity share.
3. Define inflation.
4. What is cost of capital?
5. Define operating leverage.
6. Define dividend.
7. What is EOQ?
8. Define gross working capital.
9. What is a lease?
10. What is venture capital?

PART B — ($5 \times 16 = 80$ marks)

11. (a) What is valuation of equity shares? What are the models of valuation of shares? Explain any one of them.

Or

(b) What is systematic risk? Illustrate the method of calculation of Beta using an example.

12. (a) Novel Investment Ltd accepts Rs. 10,000 at the end of every year for 20 years and pays the investor Rs. 8,00,000 at the end of the 20th year. Innovative Investment Ltd accepts Rs. 10,000 at the end of every year of 20 years and pays the investor Rs. 15,00,000 at the end of the 25th year. Which is the best investment alternative? Use present worth method with i = 12%.

Or

(b) A person is planning a new business. The initial outlay and cash flow pattern for the new business are as listed below. The expected life of the business is five years. Find the rate of return for the new business.

Period	0	1	2	3	4	5
Cash flow	–1,00,000	30,000	30,000	30,000	30,000	30,000

13. (a) The desired mix of the capital of a project along with the respective costs are shown below. Find the weighted average cost of the capital.

Years	Description of component	Proportion of capital (W_i)	Cost (R_i)
1	Equity shares	0.18	20%
2	Preference shares	0.12	15%
3	Retained earnings	0.25	10%
4	Debt	0.45	8%

Or

(b) (i) The current market price of an equity share is Rs. 120. The dividend at the end of year 1 is Rs. 20. The constant annual growth rate of the dividend from year 2 onwards is 5%. Find the cost of the equity share.

(ii) The current market price of preference share of a project is Rs. 100. The maturity period is 15 years and the expected dividend Per year is Rs. 15. The redemption price of the preference share is Rs. 98. Find the cost of the preference share.

14. (a) Discuss the factors influencing working capital requirements.

Or

(b) Discuss the adjusted net income method of cash fore casting with example.

15. (a) List and explain the sources of long term sources of finance.

Or

(b) (i) Discuss the rights of equity shareholders.

(ii) Discuss the features of preference shares.

Reg. No. : | | | | | | | | | | | | |

Question Paper Code : 85511

M.B.A. DEGREE EXAMINATION, FEBRUARY 2012.

Second Semester

DBA 1654 — FINANCIAL MANAGEMENT

(Regulation 2007/2009)

Time : Three hours | Maximum : 100 marks

Answer ALL questions.

PART A — (10 × 2 = 20 marks)

1. Distinguish between wealth maximisation and profit maximisation.

2. What is financial planning?

3. Explain the consequences of over capitalisation.

4. What is 'optimum capital structure'?

5. What are the different types of leverages?

6. What do you understand by working capital?

7. Define inventory management.

8. Distinguish between shares and debentures.

9. What is a stable dividend policy?

10. What does the profitability index signify?

PART B — (5 × 16 = 80 marks)

11. (a) Discuss the relationship between the Risk and Return.

Or

(b) Rakesh corporation is previous dividend, Do, was Rs. 12.00. Earnings and dividends are expected to grow at a rate of 10 percent thereafter. The required rate of return on Rakesh's stock is 15 percent. What should be the market price of Rakesh's stock now?

12. (a) "Despite all limitations of the method of pay-back period, it has still significance in project appraisal' Discuss.

Or

(b) The following particulars about the existing structure of 'X' company limited are given below :

	Amount Rs.	Before – tax cost (%)
Equity share capital	4,00,000	12%
Preference share capital	50,000	7%
Long term debt	3,00,000	8%

The company wants to undertake at expansion project costing Rs. 2,50,000 which can be taken from a financial institution at 10%. The minimum acceptable rate of return from the new project is based on the company's cost of capital. What is the minimum acceptable rate of return to the company in the case of the proposed expansion projects? You may assume a 50% tax rate.

13. (a) Critically examine the assumptions underlying the irrelevance hypothesis of Modigliani and Miller regarding dividend distribution.

Or

(b) An analytical statement of *Y* Ltd., is as follows :

	Rs.
Sales	9,60,000
Variable costs	5,60,000
Revenue before FC	4,00,000
Fixed cost	2,40,000
	1,60,000
Interest	60,000
Earnings before tax	1,00,000
Tax	50,000
Net income	50,000

Compute the degree of

(i) Operating leverage

(ii) Financial leverage and

(iii) The composite leverage from the above data.

14. (a) What factors determine the size of the investment a company makes in Accounts receivables? Which of these factors are under the control of the Finance manager?

Or

(b) Gopal and Co., are engaged in large scale retail business. From the following information, you are required to forecast their working capital requirements.

Project annual sales	Rs. 130 lakhs
Percentage of net profit on cost of sales	25%
Average cost period allowed to debtors	8 weeks
Average cost period allowed to creditors	4 weeks
Average stock carrying (in terms of sales requirements)	8 weeks

Add 10% to computed figures to allow for contingencies.

15. (a) What is ownership capital? How does it differ from creditorship capital?

Or

(b) Leasing finance has proved its unique adaptability to various financial problems. Discuss its merits as compared to other methods of financing.

Reg. No. : | | | | | | | | | | | |

Question Paper Code : 95511

M.B.A. DEGREE EXAMINATION, AUGUST 2011.

Second Semester

DBA 1654 — FINANCIAL MANAGEMENT

(Regulation 2007/2009)

Time : Three hours   Maximum : 100 marks

Answer ALL questions.

PART A — ($10 \times 2 = 20$ marks)

1. The ABC company expects to receive Rs. 1,00,000 for a period of 10 years from a new project it has just undertaken. Assuming a 10% rate of interest, how much would be the present value of this annuity.
2. What is interest rate risk?
3. List the eligibility criteria for investment evaluation.
4. A company issues 10% irredeemable preference shares. The face value per share is Rs. 100, but the issue price is Rs. 95 what is the cost of a preference share? What is the cost if the issue price is Rs. 105?
5. What is EBIT and EPS analysis?
6. What is Reverse split?
7. How is the length of operating cycle determined?
8. What is two-bin under inventory control systems?
9. What is hire purchase? Give an example.
10. What are the various stages in venture financing?

PART B — ($5 \times 16 = 80$ marks)

11. (a) The managing director of a company decides that his company will not pay any dividends till he survives. His current life expectancy is 20 years. After that time it is expected that the company could pay dividends of Rs. 30 per share indefinitely. At present the firm could afford to pay Rs. 5 per share forever. The required rate of return this company's shareholders is 10%. What is the current value of the share? What is the cost to each shareholder of the managing director's policy?

Or

(b) (i) Explain the procedure for measuring portfolio risk for two assets.

(ii) A portfolio consist of three securities P,Q and R with the following Parameters:

	P	Q	R	Cor
Expected return (%)	25	22	20	
Standard deviation	30	26	24	
	Correlation :			
PQ				–0.50
QR				+0.40
PR				+0.60

If the securities are equally weighted, how much is the risk and return of the portfolio of these three securities?

12. (a) Modern enterprises Ltd is considering the purchase of a new computer system for its research and development division, which would cost Rs. 35 lakhs.

The operation and maintenance costs (excluding depreciation) are expected to Rs. 7 lakh per annum. It is estimated that the useful life of the system would be 6 year, at the end of which the disposal value is expected to be Rs. 1 lakh.

The tangible benefits expected from the system in the form of reduction in design and draftsmanship costs would be Rs. 12 lakh per annum. The disposal of used drawing office equipment and furniture initially is anticipated to net Rs. 9 lakh.

As capital expenditure in research and development, the proposal would attract a 100% write—off for tax purposes. The gains arising from disposal of used assets may be considered tax free. The effective tax rate is 35%. The average cost of capital of the company is 12%. After appropriate analysis of cash flows, advise the company of the financial viability of the proposal. Ignore tax on salvage value.

Or

(b) The following statements give quantitative considerations relevant for the ranking of projects A and B:

Criteria	Project A	Project B
Investment	Rs. 400	Rs. 300
Internal rate of return	0.18	0.20
Present value at 6 per cent discount factor (DF)	542.7	421.2
Net present value at 6 per cent DF	142.7	121.2
Net present value at 12 per cent DF	60.5	60.5

Project A required an investment of Rs. 400 and was expected to have cash inflow of Rs. 110, Rs 120, Rs. 130, Rs. 140 and Rs. 150 over its 5 years economic life. Project B involved an investment of Rs. 300 and was expected to have cash inflows of Rs. 100 each over its five year economic life.

Which of the two projects will you select if cost of capital is

(i) 10 per cent

(ii) 12 per cent and

(iii) 15 per cent? Give reasons in support of your decision.

13. (a) Company X and company Y are in the same risk class and are identical in every respect expect that company X uses debt, while company Y does not. The levered firm has Rs. 9,00,000 debentures, carrying 10 per cent rate of interest. Both the firms earn 20 per cent operating profit on their total assets of Rs. 15 lakh. Assume perfect capital markets, rational investors and so on; a tax rate of 35 per cent and capitalization rate of 15 per cent for an all-equity company.

(i) Compute the value of firms X and Y using the Net Income (NI) approach.

(ii) Compute the value of each firm using the Net Operating Income (NOI) Approach.

(iii) Using the NOI Approach, calculate the overall cost of capital (k_o) for firms X & Y.

(iv) Which of these two firms has an optimal capital structure according to the NOI Approach? Why?

Or

(b) The following information is available in respect of a firm:

Capitalisation rate (k_e) =0.10

Earnings per share (E) = Rs. 10

Assumed rate of return on investments (r): (i) 15, (ii) 8, and (iii) 10.

Show the effect of dividend policy on the market price of shares, using Walter's model.

14. (a) (i) What are the advantages of cash planning? How does cash budget help in planning the firm's cash flows?

(ii) What is the lock-box system? How does it help to reduce cash balances?

Or

(b) A company currently has annual sales of Rs. 5,00,000 and an average collection period of 30 days. It is considering a more liberal credit policy. If the credit period is extended, the company expects sales and bad-debt losses to increase in the following manner :

Credit policy	Increase in credit period	Increase in sales Rs.	Bad-debts % of total sales
A	10 days	25,000	1.2
B	15 days	35,000	1.5
C	30 days	40,000	1.8
D	42 days	50,000	2.2

The selling price per unit is Rs. 2. Average cost per unit at the current level of operation is Rs. 1.50 and variable cost per unit is Rs. 1.20. If the current bad-debt loss is 1 per cent of sales and the required rate of return investment is 20 per cent, which credit policy should be undertaken? Ignore taxes and assume 360 days in a year.

15. (a) From the following information and the assumption that the cash balance in hand on 1st January 2009 is Rs. 72,500, prepare a cash budget.

Assume that 50 per cent of total sales are cash sales. Assets are to be acquired in the months of February and April. Therefore, provisions should be made for the payment of Rs. 8,000 and Rs. 25,000 for the sane. An application has been made to the bank for the grant of a loan of Rs. 30,000 and it is hoped that the loan amount will be received in the month of May.

It is anticipated that a dividend of Its. 35,000 will be paid in June. Debtors are allowed one month's credit. Creditors for materials purchased and overheads grant one month's credit. Sales commission at 3 per cent on sales is paid to the salesman each month.

Month	Sales	Material purchases	Salaries & Wages	Production overheads	Office and selling overheads
	Rs.	Rs.	Rs.	Rs.	Rs.
January	72,000	25,000	10,000	6,000	5,500
February	97,000	31,000	12,100	6,300	6,700
March	86,000	25,500	10,600	6,000	7,500
April	88,600	30,600	25,000	6,500	8,900
May	1,02,500	37,000	22,000	8,000	11,000
June	1,08,700	33,800	23,000	8,200	11,500

Or

(b) What is the strategic role of venture capital in developing entrepreneurship in a country?

Reg. No. : | | | | | | | | | | | |

Question Paper Code : 85511

M.B.A. DEGREE EXAMINATION, FEBRUARY 2011.

Second Semester

DBA 1654 — FINANCIAL MANAGEMENT

(Regulation 2007/2009)

Time : Three hours

Maximum : 100 marks

Answer ALL questions.

PART A — (10 × 2 = 20 marks)

1. A bank offers 9.5% nominal rate of interest with quarterly compounding. What is the effective rate of interest?

2. Differentiate bonds from shares.

3. Acme Limited's equity beta is 1.1. The risk free rate is 8% and the market risk premium is 7%. Acme has a debt equity ratio of 1:2. Its pre-tax cost of debt is 10% and its tax rate is 30%. What is the weighted average cost of capital?

4. What is capital rationing?

5. What is share split?

6. Differentiate financial leverage from operating leverage.

7. What is trade credit?

8. Briefly explain factoring with an example.

9. List the eligibility criteria for the corporate to issue commercial paper.

10. Differentiate leasing and hire purchase in financial aspect.

PART B — (5 × 16 = 80 marks)

11. (a) Shyam borrows Rs. 80,000 for a boiler machine at a monthly interest of 1.25%. The loan is to be repaid in 12 equal monthly installments, payable at the end of each month. Prepare the loan amortization schedule.

Or

(b) (i) Explain Capital Asset Pricing Model. (8)

(ii) A Rs. 100 par value bond bears a coupon rate of 14% and matures after 5 years. Interest is payable semi-annually. Compute the value of the bond if the required rate of return is 16%. (8)

12. (a) Metcalf Engineers is considering a proposal to replace one of its hammers. The following information is available

(i) The existing hammer was brought 2 years ago for Rs. 10 lakh. It has been depreciated at the rate of 33.5% per annum. It can be presently sold at its book value. It has a remaining life of 5 years after which, on disposal, it would fetch a value equal to it's the then book value?

(ii) The new hammer costs Rs. 16 lakhs. It will be subject to a depreciation rate of 33.5%. After 5 years it is expected to fetch a value equal to it's the then book value. The replacement of the old hammer would increase revenues by Rs.2 lakh per year and reduce operating cost (excluding depreciation) by Rs. 1.5 lakh per year.

Compute the incremental post-tax cash flows associated with the replacement proposal, assuming a tax rate of 50%.

Or

(b) (i) Computech Limited is considering the purchase of a machine costing Rs. 5,00,000 that has the following expected cash flows.

Year	Expected Cash Inflow (Rs.)
1	2,00,000
2	2,50,000
3	1,50,000
4	1,00,000
5	75,000

Calculate the discounted payback period if the discount rate is 13%. (12)

(ii) Write a short note on inflition budgeting. (4)

13. (a) With an example compare and contrast Walter and Gordon's model on dividend policy. Which do you think to be the best? Justify your answer with scenarios.

Or

(b) Safety Business Limited has project I running with an EBIT level of 10% of sales. Its variable cost is 60% of sales and it has interest cost of 20% of EBIT. They are considering an expansion programme equivalent to the current business level, with 2 mutually exclusive projects designated project II and project III with the following characteristics.

Characteristics	Project II	Project III
Variable cost (% of sales)	50	30
EBIT (as % of sales)	10	10

The management of the Safety Business feels that the current level of risk it has taken is adequate and it cannot accept any further risk with the addition of a new project. Discuss how safety Business Ltd can contain its risk at the present level. Which of the 2 projects, project II and III is more acceptable?

14. (a) (i) With examples discuss the techniques adopted by firms to cut down their operating cycle. (8)

(ii) Discuss the factors to be considered for deciding optimal level of inventory. (8)

Or

(b) Supreme Ltd consults you to forecast their daily cash requirements for the month of January 2007 based on the following information.

The past data reveals that the firm's cash sales have been 30% on an average. 50% of the sales are realized in the next month while 19% are realized in the 2nd month. Sales of rthe previous 2 months (November and December) were Rs. 175 lakh and Rs. 176.5 lakh respectively. The sales department has submitted the following forecasts for the sales in the coming months.

Month :	January	February	March	April	May	June
Sales forecast (Rs in lakh) :	178	178.5	177	195	215	256

The projected expenses details given by the production department are as follows

Direct Material — 42% of sales

Direct Labor — 25% of sales for January, February and march, but is expected to rise to a level of 26.5% for the period thereafter.

As per the pat trend, the direct labor is generally paid for in the month it is incurred. The suppliers grant the terms of sales of net 60 days which are fully utilized? Monthly fixed expenses like rent etc, are estimated to be Rs. 45 lakh. Capital expenditure worth Rs. 215 lakh is due in June. The company has a policy of maintaining cash balance at a level of 5% monthly sales. Surplus cash if any is invested in marketable securities.

Prepare monthly cash forecast for Supreme Ltd for the month January through June indicating the cash deficit/surplus months.

15. (a) Sun tourist is planning to take on lease a fleet of 15 cars with each car costing Rs. 9 lakh. The cars have a useful life of 5 years after which the value would be Rs. 2 lakh, at which the firm would buy back the car from the leasing company. The leasing company requires a return 15%. Find out the lease rent under the following scheme of installments.

(i) Stepped up lease rentals to increase by 20% annually and payable in arrears.

(ii) Stepped down lease rentals to decrease by 20% annually and payable in arrears.

Or

(b) Write short notes on the following :

(i) Indian Stock Market. (4)

(ii) New Issue Market. (4)

(iii) Venture Capital Financing. (4)

(iv) Term Loans. (4)

Reg. No. : | | | | | | | | | | | |

Question Paper Code : GG 1511

M.B.A. DEGREE EXAMINATION, AUGUST 2010.

Second Semester

DBA 1654 — FINANCIAL MANAGEMENT

(Regulation 2007/2009)

Time : Three hours

Maximum : 100 marks

Answer ALL questions.

PART A — ($10 \times 2 = 20$ marks)

1. State and brief any two activities of the financial manager.

2. Applying CAPM, compute the expected market return, using the following data : Risk free return 7.75%, Beta = 2, Expected return of investors = 16%.

3. State and distinguish the two ways of defining benefit-cost ratio.

4. How the cost of a specific source of finance is calculated? Brief with an example.

5. Distinguish debt-equity ratio and interest coverage ratio on two aspects.

6. What is 'share split'? Brief with an example.

7. State the three motives of holding cash in a firm.

8. A manufacturing company is need of 50,000 units of a certain type of ball bearing next year. The company spends Rs. 200 to process an order and it incurs Rs. 5/p.a./year in holding the bearing in inventory. Calculate economic ordering quantity.

9. State and brief any four rights of equity share holder.

10. What is 'BOOT' in project financing? Quote a practical example.

PART B — (5 × 16 = 80 marks)

11. (a) (i) What is annuity? Explain with an example explain how can future value of an annuity be determined? (8)

(ii) MM Ltd's share price is at present Rs. 120. After 6 months, its price will be either Rs. 150 with probability of 0.8 or Rs. 110 with remaining probability. An European call option exists with an exercise price of Rs. 130. As a call option writer, if you intend to create a perfectly hedged position, what will you do? what will be the value of your hedged position in each of the possibilities stated? (8)

Or

(b) (i) With reference to bond valuation explain with examples : (8)

(1) basic bond valuation

(2) yield to maturity

(ii) The bonds of ABC Ltd., currently sell at Rs. 115. They have a 11% coupon rate and 100 per value. The interest is paid annually and the bonds have 18 years to maturity. Compute the yield to maturity. (8)

12. (a) The cash flow streams for two alternatives are shown below :

Year :	0	1	2	3	4	5	6	7	8	9	10
Cash flow A :	(3,00,000)	40,000	40,000	40,000	40,000	40,000	30,000	30,000	20,000	20,000	20,000
Cash flow B :	(2,10,000)	80,000	60,000	80,000	60,000	80,000	60,000	40,000	40,000	40,000	40,000

Calculate the : (4 × 4 = 16)

(i) Payback period

(ii) Internal rate of return

(iii) Net present value

(iv) Profitability index for the two alternatives.

Or

(b) (i) Explain the merits and demerits of time adjusted methods of evaluating the investment projects. (8)

(ii) Following data is pertaining to AUOM Net operating income Rs. 80 million Interest on debt Rs. 20 million.

cost of equity 18%

cost of debt 12%

Calculate the average cost of capital. (8)

13. (a) (i) How to measure the degree of operating, financial leverage? Illustrate with an example. (8)

(ii) Following data relate to a firm :

Share capital (at Rs. 10 per chare) Rs. 12.5 crores

Reserve Rs. 7.5 crores

Profit after tax Rs. 1.85 crores

Dividends paid Rs. 1.50 crores

P/E ratio Rs. 13.33 crores.

Determine the :

(1) Optimum payout ratio using Walter's model

(2) Determine the price earnings ratio of which dividend payout will have no effect on share price. (8)

Or

(b) Firms A and B are similar except that A is unlevered, while B has Rs. 2,00,000 of 5% debenture outstanding. Assume that the tax rate is 40% NOI is Rs. 40,000 and the cost of equity is 10%.

(i) Calculate the value of the firm, if the M-M assumptions are met

(ii) Suppose V_B = Rs. 3,60,000, according to M-M ado these represent equilibrium values?

(iii) How will equilibrium be set? Explain.

14. (a) (i) With an example discuss the concept of working capital cycle. (6)

(ii) The proforma cost sheet of a company provides the following data :

Cost per unit	Rs.
Raw materials	52.0
Direct labour	19.5
Overheads	39.0
Total cost per unit	110.5
Profit	19.5
Selling price	130.0

Following additional data is available :

Average raw materials in stock : One month; Average materials in process : half a month ; credit allowed by the suppliers : one month ; credit allowed to the by the suppliers : one month ; credit allowed to the debtors : two months ; Time lag in payment of wages : one and a half weeks ; overheads : One month ; one fourth of the sales are on cash basis: cash balance is expected to be Rs. 1,20,000.

Prepare a statement showing the working capital needed to finance a level of activity of 7000 units of output. (10)

Or

(b) (i) Discuss the various sources of working capital in detail. (8)

(ii) Explain the techniques that can be used to accelerate a firm's collections. (8)

15. (a) (i) Distinguish primary and secondary capital markets. (8)

(ii) Explain the features of a convertible security. (8)

Or

(b) (i) Explain the steps involved in a venture capital investment process. (6)

(ii) A company is considering the lease of an equipment which has a purchase price of Rs. 3,50,000. The equipment has an estimated economic life of 5 years. 25% written down value depreciation is allowed. Company's marginal tax rate is 50%. If the before-tax borrowing rate for the company is 16%, should the company base the equipment? Ignore tax shield on depreciation after 5 years. (10)

Reg. No. : | | | | | | | | | | | |

Question Paper Code : YY 1511

M.B.A. DEGREE EXAMINATION, FEBRUARY 2010.

Second Semester

DBA 1654 — FINANCIAL MANAGEMENT

(Regulation 2007)

Time : Three hours | Maximum : 100 marks

Answer ALL questions.

PART A — (10 × 2 = 20 marks)

1. What is the relationship between return, risk and market value of equity?

2. Briefly explain the relationship between effective rate of interest and nominal rate of interest?

3. Evaluate the benefit-cost ratio as an investment criterion.

4. Define profitability index and its importance.

5. What are the important aspects of dividend policy?

6. What are the most commonly used measures of financial leverage?

7. How would you determine the optimum level of current assets?

8. Define Economic Order Quantity.

9. What is a rights issue?

10. Define share debentures.

PART B — (5 × 16 = 80 marks)

11. (a) (i) **As a financial manager which alternative would you choose?**

Option 1 : an annuity of Rs.5000 at the end of each year for 3 years.

Option 2 : an annuity of Rs.6600 at the end of each year for 20 years.

Option 3 : Rs. 50,000 in cash right now.

Assume for each option the time value of money is 10 percent. (8)

(ii) The dividend per share of a company has grown from Rs.3.5 to Rs.10.5 over past 10 years. The share is currently selling for Rs.75. Calculate company's capitalization rate. (8)

Or

(b) (i) What is the effect of change in risk aversion on the security market line? (4)

(ii) The return on four stocks A, B, C, and D over a period of six years has been has follows :

	1	2	3	4	5	6
A	10%	12%	-8%	15%	-2%	20%
B	8%	4%	15%	12%	10%	6%
C	7%	8%	12%	9%	6%	12%
D	9%	9%	11%	4%	8%	16%

Calculate the return on:

(1) Portfolios of two stocks at a time

(2) Portfolios of three stocks at a time. (12)

12. (a) One project of ABC Ltd is doing poorly and is being considered for replacement. Three mutually exclusive projects X, Y and Z have been proposed. The projects are expected to require Rs. 2,00,000 each and have an estimated life of 5 years, 4 years, and 3 years respectively and have no salvage value. The company's required rate of return is 10%. The anticipated cash inflows after taxes for the three projects is as follows:

Year	CFAT		
	A	B	C
	Rs.	Rs.	Rs.
1	50,000	80,000	1,00,000
2	50,000	80,000	1,00,000
3	50,000	80,000	1,00,000
4	50,000	30,000	-
5	1,90,000	-	-

(i) Rank each project applying the methods of PB, NPV, IRR and profitability index.

(ii) What would be the profitability index if the IRR equaled the required return on investment? What is the significance of a profitability index less than one?

(iii) Recommend the project to be adopted and give reasons.

Or

(b) A company is considering two mutually exclusive projects. Both require an initial cash outlay of Rs. 10,000 each and have a life of five years. The company's required rate of return is 10 percent and pays tax at a 50 percent rate. The projects will be depreciated on a straight line basis. The before taxes cash flows expected to be generated by the projects are as follows:

	Net cash flow (Rs)				
Year	1	2	3	4	5
Project A	4000	4000	4000	4000	4000
Project B	6000	3000	2000	5000	5000

Calculate for each project :

(i) The pay back

(ii) The average rate of return

(iii) The net present value and profitability index

(iv) The internal rate of return. Which project should be accepted and why?

13. (a) (i) Prove the Miller and Modigliani hypothesis with the help of the arbitrage mechanism. (8)

(ii) A low dividend payout ratio promotes the welfare of stockholders because long-term capital gains are treated more favourably than dividends income from the tax point of view. Discuss. (8)

Or

(b) The operating income of Hypothetical Ltd amounts to Rs.1,86,000. It pays 35 percent tax on its income. Its capital structure consists of the following:

14% debentures – Rs. 5,00,000

15% preference shares – Rs. 1,00,000

Equity shares (Rs.100 each) – Rs. 4,00,000

(i) Determine the firm's EPS.

(ii) Determine the percentage change in EPS associated with 30% change (both increase and decrease) in EBIT.

(iii) Determine the degree of financial leverage at the current level of EBIT.

(iv) What additional data do you need to compute operating as well as combined leverage?

14. (a) (i) List and explain the important dimensions of a firm's credit policy. (8)

(ii) How is discriminant analysis used in credit rating? Explain. (8)

Or

(b) (i) Illustrate the profitability-solvency tangle in the current assets holding. (8)

(ii) Explain the importance of trade credit and accruals as sources of working capital. What is the cost of these sources. (8)

15. (a) (i) What are the myths and advantages of a lease? How does it differ from a hire purchase and installment sale? Illustrate the cash flow consequences of a lease. (6)

(ii) A company is considering the lease of equipment which has a purchase price of Rs. 3,50,000. The equipment has an estimated economic life of five years. As per the Income Tax Rule a written down depreciation at Rs. 25 percent is allowed. The lease rentals per year are Rs. 1,20,000. The company's marginal corporate tax rate is 50 percent. If the before-tax borrowing rate for the company is 16% should the company lease the equipment? (10)

Or

(b) (i) Discuss the principal weaknesses of the Indian stock market? (8)

(ii) Define venture capital and explain its characteristics. What is the strategic role of venture capital in the development of a country? (8)

Reg. No. :

Z 1511

M.B.A. DEGREE EXAMINATION, FEBRUARY 2009.

Second Semester

DBA 1654 — FINANCIAL MANAGEMENT

(Regulation 2007)

Time : Three hours Maximum : 100 marks

Answer ALL questions.

PART A — ($10 \times 2 = 20$ marks)

1. What are the applications of the '*Time value of Money*' concept in Finance?

2. How do you measure the risk of a portfolio?

3. What are the relevant cash flows associated with a capital expenditure decision?

4. What is 'weighted average cost of capital'?

5. What is the objective of EBIT-EPS analysis?

6. What do you mean by '*share splits*'?

7. What is a Commercial Paper?

8. How do you compute Economic Ordering Quantity?

9. What is the difference between an Operating lease and a Finance lease?

10. What do you mean by IPO, FPO and NFO in the context of Indian capital market?

PART B — ($5 \times 16 = 80$ marks)

11. (a) (i) **Explain the functions of Finance and its implications on risk-return trade-off. What are the new challenges faced by a Finance manager in the recent years? (10)**

(ii) **Explain how the *wealth maximisation* objective is superior to the *profit maximisation* objective. (6)**

Or

(b) (i) East Coast Roads Ltd. has paid a dividend of Rs. 2 per share for the last year. The investors expect the company's dividend to grow at a constant rate of 6 per cent. The estimated *beta* coefficient of the stock is 1.2 and the risk - free rate is 8 per cent.

Assuming the market rate of return as 14 per cent, find out

(1) The required rate of return on the stock and

(2) The value of the stock. (8)

(ii) Surepro Ltd., has issued a 10 year, 10 per cent coupon bond with a Rs 1000 par value. The company pays interest annually. Find out the value of the bond if the required rate of return is,

(1) 10 per cent.

(2) 12 per cent, and

(3) 8 per cent (8)

12. (a) REX Ltd., is considering two mutually exclusive projects for investment. The CFO is of the opinion that the project with a higher NPV should be chosen whereas the MD thinks that the one with higher IRR should be undertaken. Both the projects have the same initial outlay and length of life. The cost of capital of the company is 10 percent and the cashflows after tax for the two projects are as follows :

Year	Cashflows After Tax (Rs. in '000)	
	Project X	Project Y
0	(400)	(400)
1	70	436
2	160	20
3	180	20
4	150	8
5	40	6

Required:

(i) NPV and the IRR of each project.

(ii) State with reasons, which project you would recommend.

(iii) Explain the inconsistency, if any, in the ranking of the two projects

Note : The discount factors at 10 percent and 20 percent are as follows :

Year	0	1	2	3	4	5
Discount factor						
– At 10%	1	0.91	0.83	0.75	0.68	0.62
– At 20 %	1	0.83	0.69	0.58	0.48	0.41

(16)

Or

(b) **Explain the principles and techniques of capital budgeting. Compare the traditional methods with DCF techniques.** (16)

13. (a) (i) Explain the two propositions of Modigliani- Miller (MM) hypothesis on capital structure. How do MM prove their hypothesis? (10)

(ii) Zed Ltd's condensed income statement is given below :

	Rs.
Sales	10,50,000
Variable costs	7,67,000
Fixed costs	75,000
E B I T	2,08,000
Interest	1,10,000
Taxes (30%)	29,400
Net Income	68,600

Compute :

(1) Degree of Operating leverage

(2) Degree of Financial leverage

(3) Degree of Combined leverage. (6)

Or

(b) (i) What are the factors that determine the dividend policy of a company? (8)

(ii) Write short Notes :

(1) Walter's Model. (4)

(2) Stable dividend policy (4)

14. (a) TASTY Ltd. is presently operating at 60 per cent capacity level, producing 36,000 units and proposes to increase its capacity utilization in the coming year by 33.33 percent over the existing level of production. The following data has been supplied:

(i) Cost Structure of the product at current level (Cost per unit) :

	Rs.
Raw material	4
Wages (Variable)	2
Overheads (Variable)	2
Fixed Overheads	1
Profit	3
Selling Price	12

(ii) Raw material will remain in stores for 1 month before being issued for production. Material will remain in process for further 1 month. Suppliers grant credit for 3 months to the company.

(iii) Finished goods remain in godown for 1 month.

(iv) Debtors are allowed credit for 2 months.

(v) Average time lag in wages and overhead payments is 1 month and these expenses accrue evenly throughout the production cycle.

(vi) No increase, either in cost of inputs or selling price, is envisaged.

Prepare a statement showing working capital requirements at the new level, assuming that a minimum cash balance of Rs. 19,500 has to be maintained. (16)

Or

(b) (i) Discuss the mechanism and different forms of Factoring. What are the benefits of factoring? (10)

(ii) Explain the various sources of working capital finance. (6)

15. (a) (i) Explain the salient features of capital market developments in India. (8)

(ii) What are the differences between Lease financing and Hire purchase financing? (8)

Or

(b) (i) Explain the various stages of venture capital financing. (8)

(ii) Write Short Notes :

(1) Book Building. (4)

(2) Zero Interest Bonds (4)

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Reg. No. :

LL 1611

M.B.A. DEGREE EXAMINATION, AUGUST 2009.

Second Semester

DBA 1654 — FINANCIAL MANAGEMENT

(Regulation 2007)

Time : Three hours

Maximum : 100 marks

Answer ALL questions.

PART A — (10 × 2 = 20 marks)

1. Distinguish between bond and equity share.

2. Define rate of return. List its types.

3. Define inflation.

4. What is payback method?

5. What is operating leverage?

6. Define dividend.

7. What is trade credit?

8. Define commercial paper.

9. What is a term loan?

10. What is venture capital?

PART B — (5 × 16 = 80 marks)

11. (a) (i) A person invests a sum of Rs. 5,000 in a bank at a nominal interest rate of 12% for 10 years. The compounding is quarterly. Find the maturity amount of the deposit after 10 years. (8)

(ii) The current market price per preference share of a project is Rs. 100. The maturity period is 15 years and the expected dividend per year is Rs. 15. The redemption price of the preference share is Rs. 98. Find the cost of the preference share. (8)

Or

(b) The return on market portfolio (R_m), return on asset $j(R_{ji})$ and the risk free return (R_{fi}) for the periods from 1 to 10 are given below. Find the cost of the asset j (equity j) using capital asset pricing model.

Year i	Return of market portfolio (R_{mi})	Return on asset $j(R_{ji})$	Risk free return (R_{fi})
1	0.18	0.15	0.06
2	0.15	0.20	0.06
3	– 0.12	– 0.11	0.06
4	0.12	0.20	0.07
5	0.18	0.20	0.07
6	0.13	+ 0.15	0.07
7	– 0.14	– 0.13	0.07
8	0.12	0.20	0.07
9	0.12	0.24	0.08
10	0.15	0.19	0.08

12. (a) An engineer has two bids for an elevator to be installed in a new building. The details of the bids for the elevators are as follows

Bid	Engineer's estimate		
	Initial cost (Rs.)	Service life (Yrs.)	Annual operating and Maintenance cost (Rs.)
Alpha Elevator Inc	4,50,000	15	27,000
Beta Elevator Inc	5,40,000	15	28,500

Determine which bid should be accepted, based on the present worth method of comparison assuming 15% interest rate annually.

Or

(b) A project involves an initial outlay of Rs. 30,00,000 and with the following transactions for the next five years as shown below. The salvage value at the end of the life of the project after five years is Rs. 3,00,000. Check whether the project is financially feasible by assuming an interest rate of 15% compounded annually and an average rate of inflation of 4% per year using present worth method. The salvage value, maintenance and operation cost and annual revenues are in today's rupee value.

End of year (n)	Maintenance and Operating Expenses (Rs.)	Revenue (Rs.)
1	2,00,000	8,00,000
2	2,50,000	10,00,000
3	3,00,000	12,00,000
4	3,50,000	14,00,000
5	4,00,000	16,00,000

13. (a) (i) List the assumptions of capital structure theories. (8)

(ii) Illustrate the net income approach to determine the value of the firm and overall cost of the capital using an example. (8)

Or

(b) The following information is available in respect of a firm

Capitalization ratio $(K_e) = 0.10$

Earnings per share = Rs. 10

Assumed rate of return on investments (r) are

(i) 15 and

(ii) 8

Show that effect of dividend policy on the market price of shares, using Walter's model. (8 + 8)

14. (a) List and explain the determinants of working capital.

Or

(b) (i) What is bank credit? List and explain its types. (12)

(ii) List and explain different modes of security based on which banks give credit to working capital finance. (4)

15. (a) List and explain the types of leasing.

Or

(b) What are the stages in venture capital financing? Explain the importance of venture capital financing.