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MBA/IIS/202/13

2013

MASTER OF BUSINESS ADMINISTRATION

[Second Semester Examination]

FINANCIAL MANAGEMENT

PAPER—MBA-202

Full Marks : 100

Time : 3 hours

The figures in the right-hand margin indicate marks

*Candidates are required to give their answers in their
own words as far as practicable*

Illustrate the answers wherever necessary

**Write the answers to questions of each Half
in separate books**

FIRST HALF

[Marks : 50]

(Turn Over)

1. Answer any *four* questions : 5 × 4

(a) Do you think that value maximisation objective in Financial Management is better than profit maximisation objective ?
Justify the answer. 5

(b) Distinguish between : $2\frac{1}{2} \times 2$

(i) Explicit cost and Implicit Cost of Capital.

(ii) Overall cost of capital and specific cost of capital ?

(c) Show that

$$\text{DOL} = \frac{\text{Contribution}}{\text{EBIT}}. \quad 5$$

(d) Write the optimum combination of DOL and DFL to maximise return with moderate risk. 5

(e) Explain the role of Industrial Development Bank of India in providing corporate finance. 5

(f) 200, 10 % Debentures valued at ₹ 1,000 each are redeemable with premium @ 5% in the year 2014. These debentures were issued at par in the year 2010. Assume that corporate tax rate is 30 %. Calculate cost of debenture. 5

2. Answer any *two* of the following : 10 × 2

(a) You are required to determine weighted average cost of capital (K_0) of Sandha Ltd. using book value as weight. The following information is available for your perusal, Present value of capital structure is

8% Debentures (₹ 100 per debenture)	8,00,000
10% Preference shares (₹ 100 per share)	2,00,000
Equity shares(₹10 per debenture)	10,00,000
	<u>20,00,000</u>

All these securities are traded in the capital market. Recent prices are : Debentures @ ₹ 110 , preference shares @ ₹ 120 and equit shares @ ₹ 22 . Anticipated

external financing opportunities are

(i) ₹ 100 per debenture redeemable at par, 20 years maturity, 4 % floatation cost, sale price ₹ 100.

(ii) ₹ 100 preference shares redeemable at par, 15 years maturity, sale price ₹ 100.

(iii) Equity shares : Sale price ₹ 22 per share, expected dividend ₹ 2 per share ; anticipated growth rate in dividend is 5% and corporate tax rate is 50 %.

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(b) Calculate the Degree of Operating Leverage (DOL), Degree of Financial Leverage (DFL) and the Degree of Combined Leverage for the following firms and interpret the results :

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	<u>P</u>	<u>Q</u>	<u>R</u>
Output (units)	3,00,000	75,000	5,00,000
Fixed Cost (₹)	3,50,000	7,00,000	75,000

(5)

	<u>P</u>	<u>Q</u>	<u>R</u>
Unit variable cost (₹)	1.00	7.50	0.10
Interest expenses (₹)	25,000	40,000	Nil
Unit selling price (₹)	3.00	25.00	0.50

(c) (i) A company purchased goods from the supplier on credit amounting ₹1,00,000 under the terms 2/10 net 30. Interpret the statement.

(ii) Do you think that Factoring is a source of finance ?

(iii) Discuss the role of Lease Financing as a source of finance in corporate sector.

2 + 2 + 6

[*Internal Assessment* : 10 Marks]

(6)

SECOND HALF

[Marks : 50]

3. Answer any *four* questions : 5 × 4

(a) Establish the relationship between Benefit Cost Ratio (BCR) and Net Benefit Cost Ratio (NBCR). 5

(b) A firm is considering an investment proposal which requires an initial cash outlay of Rs. 8 lakhs and Rs. 2 Lakhs at the end of the third year. It is expected to generate cost flows as shown below :

Year	Cash in flows (in Rs.)
1	3,50,000
2	8,00,000
3	2,50,000

Apply the discount rate of 12 % and calculate profitability index. 5

- (c) Calculate the price of the share as per Walter's Model. 5

Equity capitalisation	—	15 %
Earning per share	—Rs.	25
Dividend pay-out ratio	—	25%
ROI	—	12 %

- (d) A company expects a net operating income of Rs. 80,000. It has 8 % debenture of Rs. 2,00,000. Cost of equity is 10 %. Calculate the value of the company and overall capitalisation rate according to the NI approach. 5

- (e) From the following information, calculate the pay-back period 5

<u>Year</u>	<u>Cash flow (Rs.)</u>
0	(4,00,000)
1	2,00,000
2	1,75,000
3	25,000
4	2,00,000
5	1,50,000

(f) Compute operating cycle from the following information :

Opening stock of inventory	– Rs. 9,000
Closing stock of inventory	–Rs. 12,000
Opening stock of Receivable	–Rs. 12,000
Closing stock of Receivables	–Rs. 16,000
Sales	–Rs. 80,000
Cost of goods	–Rs. 56,000

Assume 365 days in the year. 5

4. Answer any *two* of the following : 10 × 2

(a) A company has a capitalisation rate of 10 %.
It currently has outstanding shares of 25,000 selling currently at Rs. 100 each. The firm expects to have a net income of Rs. 4,00,000 for the current financial year and it is contemplating to pay a dividend of Rs. 4 per share. The company also requires Rs. 6,00,000 to fund its investment requirement. Show that under MM model, the dividend payment does not affect the value of the firm. 10

- (b) A project requires an initial outlay of Rs. 1,00,000. It is expected to generate the following cash in flows : 10

Year	1	2	3	4
Cash in flows (Rs)	50,000	50,000	30,000	40,000

Compute the IRR of the project.

- (c) A proforma cost sheet of a company provides the following details : 10

Raw material	52.00
Direct Labour	19.50
Overheads	39.00
Total Cost	110.50
Profit	19.50
Selling price	130.00

The following additional information is also available :

Average raw material in stock : One month

Average materials in process : Half a month

(10)

Credit allowed by suppliers : One month

Credit allowed to debtors : Two months

Time lag in payment of wages : One and a half
weeks

Time lag in payment of overheads : One month

One-fourth of sales on cash basis

Cash balance expected to be maintained is
Rs 1,20,000.

You are required to prepare a statement showing the working capital required to finance a level of activity of 70,000 units of output. You may assume that production is carried on evenly through-out the year and wages and overheads accrue similarly. Assume 360 days in a year.

[*Internal Assessment* : 10 Marks]