Code : 07MB202

M.B.A. II Semester Supplementary Examinations, January 2009
FINANCIAL MANAGEMENT
(Common for R05 & R07)

Time: 3 hours **Max Marks: 60**

Answer any FIVE Questions
All Questions carry equal marks
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1. Discuss different functional areas of Financial Management. Also state the objectives of Financial Management.

2. Explain recommendations of Financing Committees appointed for examining the problem of bank credit.
   (a) V.T. Dhaheja Committee.
   (b) S.S. Marathe Committee.

3. (a) What are the important problems of cash management?
   (b) State the objectives and advantages of credit Management.

4. You are required to calculate NPV @ 10% and IRR of the following project. The initial investment of both the projects is Rs. 1600 lakhs.

Year	Project A (Rs)	Project B (Rs)
1	800	200
2	800	200
3	400	400
4	200	400
5		600
6		800

5. A Company has the following Capital Structure :

Particulars	Amount in Rs.
12% Debentures(of 100 each)	26,00,000
8% Preferred Stock (Shares of 100 each)	2,00,000
Equity Stock (100/- each)	25,00,000

The equity stock is currently selling at Rs 60/- per share and is expected to get dividend of Rs 4/-. Stockholders anticipate that the equity stock dividend will grow at a rate of 6% per annum in the near future. The company has a tax rate of 40%. From the above information, you are required to calculate the weighted average cost of capital of the company.

6. Alpha company has outstanding 100,000 shares selling at Rs.100 each. The firm is thinking of declaring a dividend of Rs.5/- per share at the end of the year. The capitalization rate is 10%. What will be the price of the shares at the end of the year, if (i) a dividend is not declared (ii) a dividend is declared? Assuming that the firm pays the dividends, has net profits of Rs.10, 00,000 and makes new investments of Rs. 20, 00,000 during the period, how many new shares must be issued? Prove that the market value of the firm is independent of the dividend decision (Use MM Proposition).

7. The Board of Directors of Nanak Engineering Company Pvt. Ltd. requests you to prepare a statement showing the working Capital requirements forecast for a level of activity of 1,56,000 units of production. The following information is available for your calculations:

A

	Per Unit
Raw material	90
Direct Labor	40
Overheads	75
	205
Profit	60
Selling Price Per Unit	265

B

i. Raw-materials are in stock on an average one month.
ii. Materials are in process, on an average 2 weeks.
iii. Finished goods are in stock, on an average one month.
iv. Credit allowed by suppliers one month.
v. Time lag in payment from debtors 2 months.
vi. Lag in payment of wages $1\frac{1}{2}$ weeks.
vii. Lag in payment of overheads is one month.

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.

8. (a) From the following information, you are required to find out cost of equity capital for firm A, firm B and firm C, assuming that the cost of equity capital (ke) is varying at different levels of debt, and the cost of over all capital is 12%, 14% and 16% for firm A, firm B and firm C respectively.
   (b) A firm is considering implementation of a project costing Rs. 10 Crore. The current market price of its share is Rs. 50. It has got the following three financing plans available:
   - Plan A: - Issue of 20 lakhs shares to raise the entire financing of Rs.10 crores.
   - Plan B: - Issue of 10 lakhs shares to raise 5 crores and arrange a debt at 10% for the remaining 5 crores.
   - Plan C: - Issue 10 lakh shares to raise Rs. 5 crores as equity, Issue preferred shares at 8% for Rs. 3 crores and arrange a debt for the remaining 2 crores.

   The firm expects a return on assets of 20% (Projected EBIT of Rs. 2 crore). It attracts tax @ 30% on its profits. Do the following:
   i. EPS under three finances plans.
   ii. DFL at EBIT level of 2 crores under 3 plans.
   iii. Your interpretation on DFL.
   iv. The financing plan you would opt for if you were very confident of achieving the EBIT level of 2 crores.
   v. Your calculation of ROI under all the financing options.

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