0432

Fourth Semester 5 Year B.B.A. LL.B. Examination, June/July 2014
FINANCIAL MANAGEMENT

Duration : 3 Hours | Max. Marks : 100

Instructions : 1. Answer **all 5** questions.
2. Figures to the **right** indicate marks.

UNIT – I

Q. No. 1. (a) Ravindra Ltd. has the following capital : Marks : 15

Equity share capital (2,00,000 shares of Rs. 20 each)	40,00,000
6% Preference share capital	10,00,000
8% Debentures	30,00,000

The market price of equity share is Rs. 20/share. The company is expected to pay dividend of Rs. 2 per share which will grow at 7%.

1) Calculate weighted average cost of capital assuming that the company is under 50% tax bracket.
2) Also calculate the new weighted average cost of capital, if the company raises an additional Rs. 20,00,000 debt by issuing 10% debentures. This would result in increase in the expected dividend to Rs. 3 per share and leave the growth rate unchanged, but the market price of the share will comes down to Rs. 15 per share.

OR

Following are the details regarding the capital structure of a company :

Sources of capital	**Book value**	**Market-Value**	**Specific cost**
Debentures	40000	38000	10%
Equity shares	60000	90000	26%
Preference shares	10000	11000	16%
Retained earnings	20000	30000	18%

You are required to determine the weighted average cost of capital using :

1) Book value as weights
2) Market value as weights.

P.T.O.

(b) Explain the importance of cost of capital. Marks : 5

OR

Explain how an empirical evaluation of a model is done.

UNIT – II

Q. No. 2. (a) A company belongs to a risk class for which the appropriate discount rate is 10%. It currently has 25000 outstanding shares selling at Rs. 100 each. The firm is contemplating a dividend payment of Rs. 5 per share at the end of current financial year. It expects to have a net income of Rs. 2,50,000 and a proposal for making new investments of Rs. 5,00,000. Show that under the MM assumptions. The payment of dividend does not affect the value of the firm. Marks : 15

OR

Explain the factors determining dividend policy.

(b) Explain the types of dividend policy. Marks : 5

OR

Explain the assumptions of MM approach under dividend theory.

UNIT – III

Q. No. 3.(a) You are given the following estimates. As a Finance Manager, set up your calculations for the average amount of working capital required for the year, after making a provision of 10% for contingencies. Marks : 15

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1) Amount blocked up for stocks :	
Stock of finished products	2,500
Stock of stores, materials	4,000
2) Average credit given	
Inland sales : 6 weeks credit	1,56,000
Export sales : 1½ weeks	39,000

3) Lag in payment of wages and other outgoings : Wages : 1½ weeks

Stock of materials : 1½ month	24,000
Rent, Royalties etc. : 6 months	5,000
Clerical staff : ½ month	31,200
Manager : ½ month	2,400
Miscellaneous expenses : 1½ months	24,000

4) Payment in advance :

Sundry expenses paid quarterly in advance	4,000

OR

What is Working Capital Management ? Explain the types of working capital and its significance.

(b) Explain the advantages of Working Capital Management. Marks : 5

OR

Write a short note on : Inventory Management.

UNIT – IV

Q. No. 4. (a) You are a Financial analyst for the little company. The director of capital has asked you to analyze two proposed capital investments – Projects X and Y. Each project has a cost of Rs. 10,000 and the cost of capital for each project is 12%. The project's expected net cash flows are as follows : Marks : 15

Year	**Project X**	**Project Y**
1	6500	3500
2	3000	3500
3	3000	3500
4	1000	3500

Calculate each project's payback period, net present value, internal rate of return and profitability index.

OR

Explain the working capital management in the multinational firms.

(b) Write a short note on : Marks : 5

Financial management of multinational corporations.

OR

Explain the various factors which are peculiar to multinational corporations.

UNIT – V

Q. No. 5.(a) A company wishes to take over company B. The Financial details of the two companies are as under : Marks : 15

Liabilities	**Company A**	**Company B**
Equity shares (Rs 10 per share)	1,00,000	50,000
Share premium account	–	2,000
Profit and loss account	38,000	4,000
Preference shares	20,000	-
10% Debentures	15,000	5,000
Total liabilities	1,73,000	61,000
Fixed Assets	1,22,000	35,000
Net current Assets	51,000	26,000
Total Assets	1,73,000	61,000
Maintainable annual profit (after tax) for equity shareholder	24,000	15,000
Market price per equity share	24	27
Price-earning ratio	10	09

What offer do you think company-A could make to company-B in terms of exchange ratio, based on :

a) net assets value
b) earning per share and
c) market price per share which method would you prefer from Company-A point of view ?

OR

Explain the different types of mergers along with examples.

(b) Explain the characteristics of mergers. Marks : 5

OR

Explain the difference between mergers and take-overs.