



0432

**Fourth Semester 5 Year B.B.A.,LL.B. Examination, June/July 2012**  
**FINANCIAL MANAGEMENT**

Duration : 3 Hours

Max. Marks : 100

- Instructions:** 1. Answer all 5 questions.  
2. **One** essay type and **one** short note question or problem from **each unit** have to be attempted.  
3. Figures to the right indicate marks.

**UNIT – I**

Q. No. 1. (a) Following are the details regarding the capital structure of a company.

Marks : 15

| Sources of Capital | Book Value | Market Value | Specific Cost |
|--------------------|------------|--------------|---------------|
| Debentures         | 80,000     | 76,000       | 10%           |
| Preference shares  | 20,000     | 22,000       | 15%           |
| Equity shares      | 1,20,000   | 1,80,000     | 30%           |
| Retained Earnings  | 40,000     | 60,000       | 15%           |

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

- Book value as weights
- Mark value as weights.

OR

Following is the capital structure of Reliance Ltd.

- Equity shares 10,000 of Rs. 10 each.  
Market price Rs.15 each,  $K_e = 12\%$ .
- Debentures 10,000 of Rs. 100 each  
Market price Rs. 120 each  $K_d$  (after tax) = 11%.

You are required to determine WACC using :

- Book value as weights and total cost.
  - Market value as weights and total cost.
- (b) Write a short note on :  
CAPM

Marks : 5

OR

Various sources of capital.

P.T.O.



### UNIT – II

Q. No. 2. (a) Explain concept of Traditional Approach and MM Approach under capital structure theories.

Marks : 15

OR

The management of a firm believes that the cost of equity and debt for different proportions of equity and debt in capital structure are as follows :

| Proportion of Equity | Proportion of Debt | Cost of equity $K_e$ | Cost of debt $K_d$ |
|----------------------|--------------------|----------------------|--------------------|
| 1.00                 | 0.00               | 11.0                 | 6.0                |
| 0.90                 | 0.10               | 11.0                 | 6.5                |
| 0.80                 | 0.20               | 11.5                 | 7.0                |
| 0.70                 | 0.30               | 12.5                 | 7.5                |
| 0.60                 | 0.40               | 13.0                 | 8.5                |
| 0.50                 | 0.50               | 14.0                 | 9.5                |
| 0.40                 | 0.60               | 15.0                 | 11.0               |
| 0.30                 | 0.70               | 16.0                 | 12.0               |
| 0.20                 | 0.80               | 18.0                 | 13.0               |
| 0.10                 | 0.90               | 20.0                 | 14.0               |

Construct a graph in terms of  $K_d$ ,  $K_e$  and  $K_A$  based on the above data. What is the optimal structure of the firm ?

(b) Write a short note on :

MM Approach under dividend theory

Marks : 5

OR

Types of Dividend Policy.

### UNIT – III

Q. No. 3. (a) From the following data compute duration of operating cycle : Marks : 15

| Particulars        | Rs.'000 |        |
|--------------------|---------|--------|
|                    | Year 1  | Year 2 |
| Raw materials      | 20      | 27     |
| Work in progress   | 14      | 18     |
| Finished goods     | 21      | 24     |
| Purchases          | 96      | 135    |
| Cost of goods sold | 140     | 180    |
| Sales              | 160     | 200    |
| Debtors            | 32      | 15     |
| Creditors          | 16      | 18     |



Assume 360 days per year for computation purpose. Draw a reconciliation statement

OR

What is working capital ? What are the different classifications of working capital ? What are the merits and demerits of working capital ?

(b) Write a short note on :

Working Capital Cycle.

Marks : 5

OR

Techniques of inventory management.

### UNIT – IV

Q. No. 4. (a) Assume that the exchange rate of Rs/US dollar during 0 – 1 year remains unchanged at Rs. 47/\$. For the subsequent 4 years, it is forecasted that the rupee will depreciate vis-a-vis the US dollar by 2 per cent after the first year. As a result, the exchange rates for years 2 – 5 will be as follows :

Marks : 15

|      |   |     |                          |
|------|---|-----|--------------------------|
| Year | 2 | Rs. | 47.94 (Rs. 47 × 1.02)    |
|      | 3 |     | 48.8988 (47.94 × 1.02)   |
|      | 4 |     | 49.8768 (48.8988 × 1.02) |
|      | 5 |     | 50.8743 (49.8768 × 1.02) |

Give the exchange rate of Rs. 47/\$ in year 1, the equivalent rupees of \$ 125.5 million will be (\$ 125.5 million × Rs. 47) = Rs. 5898.5 million. This is the incremental operating CFAT in Indian currency, that the project is expected to generate in all the 5 years (given the assumption of no variation in exchange rates).

Assuming full repatriation every year, with no withholding taxes and full tax credit available in US, advise the US multinational regarding the financial viability of having a subsidiary in India.

OR

Explain various factors which are peculiar to multinational firms.

(b) Write a short note on :

Marks : 5

Multinational working capital management.

OR

Management Accounting by Multinational firms.



**UNIT – V**

Q. No. 5. (a) M Ltd. decides to take over A Ltd., following is the data available. Marks : 15

|               | <b>M Ltd.</b> | <b>A Ltd.</b> |
|---------------|---------------|---------------|
| No. of shares | 4,00,000      | 3,00,000      |
| EPS           | 10            | 8             |
| P/E ratio     | 6             | 5             |
| MP of shares  | 60            | 40            |

Exchange ratio is 0.8 shares for every share of A Ltd.

Find out :

- 1) Post Margeer EPS
- 2) P/E ratio
- 3) MP of shares.

OR

Small Co. is being acquired by large company on a share exchange basis. Their selected data are as follows :

| <b>Particulars</b> | <b>Large Co.</b> | <b>Small Co.</b> |
|--------------------|------------------|------------------|
| PAT                | 56               | 21               |
| No. of shares      | 10               | 8.4              |
| EPS                | 5.6              | 2.5              |
| P/E ratio          | 12.5             | 7.5              |

Calculate the EPS of the surviving firm after the merger. If the P/E ratio falls to 12 after the merger, what is the premium received by the share holders of small company (Using the surviving firm's new price) ?

Is merger is beneficial for large Co's share holders ?

(b) Write a short note on :

Reasons for Merger.

OR

Advantages of Merger.

Marks : 5

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