



0442

**Fourth Semester Five Year B.B.A. LL.B. (Hon's) Examination, June 2013**  
**FINANCIAL MANAGEMENT**

Duration : 2<sup>1</sup>/<sub>2</sub> Hours

Max. Marks : 70

- Instructions:**
1. Answer **all 5** questions.
  2. **One** essay type and **one** short note questions from **each** Unit to be attempted, referred as part **(a)** and **(b)**.
  3. Figures to the **right** indicate **marks**.
  4. **Use** of simple calculators only.

**UNIT – I**

Q. No. 1. (a) Explain the advantages and limitations of cost of capital. Marks : 9

OR

Following is the capital structure of Sun Ltd.

- 1) Equity shares 1,000 of Rs. 100 each.  
Market price Rs. 150 each,  $K_e = 12\%$
  - 2) Debentures 10,000 of Rs.100 each  
Market price Rs. 120 each  $K_d$  (After tax) = 11%
- You are required to determine WACC using :
- a) Book value as weights and total cost.
  - b) Market value as weights and total cost.

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

Cost of retained earnings.

OR

CAPM.

**UNIT – II**

Q. No. 2. (a) Explain the concept of Traditional Approach of capital structure theories with the help of graphical representation. Marks : 9

OR

Explain Walter and Gordon's model of dividend theory.

**P.T.O.**



(b) Write a short note on :

Marks : 5

MM Approach of dividend theory.

OR

Factors influencing dividend policy.

### UNIT – III

Q. No. 3. (a) What is working capital ? What are the different classifications of working capital ?

Marks : 9

OR

You are supplied with the following information in respect of TATA Ltd. for the ensuing year

|                             |                      |
|-----------------------------|----------------------|
| Productions for the year    | 69000 units          |
| Finished goods in store     | 3 months             |
| Raw material in store       | 2 months             |
| Production process          | 1 month              |
| Credit allowed by creditors | 2 months             |
| Credit given to debtors     | 3 months             |
| Selling price per unit      | Rs. 50               |
| Raw material                | 50% of selling price |
| Direct wages                | 10% of selling price |
| Overheads                   | 20% of selling price |

There is a regular production and sales cycle and wages and overheads accrue evenly. Wages are paid in the next month of accrual. Material is introduced in the beginning of production cycle.

You are required to find out its working capital requirement.

(b) Write a short note on :

Marks : 5

Methods of Inventory Management.

OR



The following information is available in respect A Ltd.

- a) Stock holding : Raw material – 1 month  
WIP – 15 days, Finished goods – 1 month
- b) Average collection period : 2 months
- c) Time lag in payment of bills = 45 days

Calculate :

- a) Operating cycle
- b) Cash cycle
- c) Number of Operating cycles and cash cycles.

### UNIT – IV

Q. No. 4. (a) One of the 2 machines A and B is to be purchased. From the following information find out which of the two will be more profitable, with the help of NPV method. Discount factor is assumed to be at 10%. The averages rate of tax may be taken at 50%.

Marks : 9

| Particulars                                  | Machine A | Machine B |
|--|-----------|-----------|
| Cost of machine                              | 50,000    | 80,000    |
| Working life                                 | 4 yrs.    | 6 yrs.    |
| Earnings before tax and after depreciation : |           |           |
| <b>Years</b>                                 |           |           |
| 1  | 10,000    | 8,000     |
| 2  | 15,000    | 14,000    |
| 3  | 20,000    | 25,000    |
| 4  | 15,000    | 30,000    |
| 5  | –         | 18,000    |
| 6  | –         | 13,000    |

OR

Explain different methods of capital budgeting.



(b) Write a short note on :

Marks : 5

Multinational cost of capital.

OR

Multinational capital budgeting.

UNIT – V

Q. No. 5. (a) Explain the motives behind merger.

Marks : 9

OR

Large company is acquiring small company. Large Co. will pay 0.5 of its shares to the shareholders of small Co. for each share hold by them. The data for the two companies are given bellow.

|                             | Large Co. | Small Co. |
|-----------------------------|-----------|-----------|
| Profit after-tax (Rs. lakh) | 150       | 30        |
| Number of shares (lakh)     | 25        | 8         |
| EPS (Rs.)                   | 6.00      | 3.75      |
| MPS (Rs.)                   | 78.00     | 33.75     |
| P.E. ratio                  | 13        | 9         |

Calculate the EPS of the surviving firm after the merger. If the price-earnings ratio falls to 12 after the merger, what is the premium received by the shareholders of small Co. (using the surviving firm's new price) ? Is the merger beneficial for XYZ's shareholder ?

(b) Write a short note on :

Marks : 5

Problems of post-merger integration.

OR

Concepts of horizontal, vertical and conglomerate merger with examples.

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