Fourth Semester Five Year B.B.A., LL.B. Examination, December 2013
FINANCIAL MANAGEMENT

Duration : 3 Hours Max. Marks : 100

Instructions: 1. Answer all **5** Questions. Subject to internal choice in each question.
2. **One** essay type and **one** short note question or problem from **each unit** have to be attempted, which is referred as part (**a**) and (**b**) in all the units.
3. Figures to the **right** indicate marks.

UNIT – I

Q. No. 1. (a) A company has the following capital structure : Marks : 15

Source of capital	Amount(Rs.)	After Tax cost
Equity Capital	8,00,000	14%
Preference Capital	2,00,000	11%
Debentures	5,00,000	8%

Equity shares have the face value of Rs. 100 and market value Rs. 125. Preference shares have face value of Rs. 100 and it is traded in the market at Rs. 120. Debentures have face value of Rs. 100 and currently traded at Rs. 90 in the market. Calculate weighted average cost of capital at book value and market value.

OR

Following is the capital structure of a company :

Source of Capital	Book Value (Rs.)	Market Value (Rs.)	Specific Cost
Equity Shares	1,20,000	1,80,000	26%
Preference shares	20,000	22,000	16%
Debentures	80,000	76,000	10%
Retained Earnings	40,000	60,000	18%

Determine weighted average cost of capital using book value weights and market value weights.

(b) Write short notes on : Marks : 5

significance of cost of capital.

OR

Factors affecting weighted average cost of capital.

UNIT – II

Q. No. 2. (a) A company has capital structure exclusively comprising of equity shares of Rs. 20,00,000. The firm now wishes to raise additional Rs. 20,00,000 for its expansion project. The firm has following four alternative financial plans. Marks : 15

a) It can raise the entire amount by issue of equity shares.
b) It can raise 50% by issue of equity shares and balance by issue of 5% debentures.
c) It can raise the entire amount by issue of 6% debentures.
d) It can raise 50% by issue of equity shares and balance by issue of 5% preference shares.

Assume that the EBIT is Rs. 2,40,000, tax rate is 35% outstanding equity shares 20,000 and market price per share is Rs. 100 under all financial plans.

Advise which financing plan should the firm select ?

OR

A company belongs to a risk class for which the appropriate capitalisation rate is 10%. It currently has outstanding 5000 shares selling at Rs. 100 each. The firm is contemplating the declaration of dividend of Rs. 6 per share at the end of the current year. The company expects to have a net income of Rs. 50,000/- and has a proposal for making new investments of Rs. 1,00,000/-. Show that under MM hypothesis, the payment of dividend does not affect value of the firm.

(b) Explain the traditional approach of capital structure. Marks : 5

OR

Discuss factors affecting dividend policy.

UNIT – III

Q. No. 3. (a) The following information is provided to you in respect of a company Marks : 15

a)

Element of cost	**% of Selling Price**
Raw material	50
Labour	15
Overheads	15

b) Raw materials remain in stores for about 2 months.
c) Processing time is 1 month.
d) Lag in payment of wages – 1 month.
e) Finished goods remain in stores for about 2 months.
f) Credit allowed to debtors : 3 months.
g) Credit allowed by suppliers : 2 months
h) Expected level of activity : 5,00,000 units.
i) Selling price per unit Rs. 80/-

Estimate working capital requirements. Add 10% for contingencies.

OR

Explain the factors influencing the working capital requirements.

(b) Explain motives for holding inventories. Marks : 5

OR

Explain in brief techniques of inventory control.

UNIT – IV

Q. No. 4. (a) A company is planning to invest in a new machine costing Rs. 15,00,000/–. The cash flows associated with the machine are given below : Marks : 15

Years	**Cash flows (Rs.)**
1	4,50,000
2	6,00,000
3	7,50,000
4	6,00,000
5	2,00,000

Evaluate the proposal using following criteria.

a) Payback period
b) Net present value @ 12%
c) Profitability Index
d) Internal Rate of Return
e) Accounting rate of Return

OR

A US MNC is planning to instal a manufacturing unit to produce 5,00,000 units of an automobile component in India. This involves an investment outlay of Rs. 50 million. The plant is expected to have a useful life of 5 years with Rs. 10 million salvage value. MNC will follow the straight line method of depreciation. To support the running of business, working capital of Rs. 5 million will have to be invested. Variable cost of production will be Rs. 20 per unit. Fixed cost per annum is estimated at Rs. 2 million. The forecasted selling price is Rs. 70 per unit. The MNC will be subjected to 40% tax in India. Its required rate of return is 15%.

It is forecasted that the rupee will depreciate in relation to US$ @ 3% p.a.with an initial exchange rate of Rs. 48 per $. Advise the MNC regarding the financial viability of the project.

(b) Write a note on management of working capital by an MNC. Marks : 5

OR

Explain factors influencing capital structure of an MNC.

UNIT – V

Q. No. 5. (a) Company A wishes to takeover company B. Marks : 15

The financial details of the two companies are as follows :

Particulars	**Company A Rs.**	**Company B Rs.**
Equity shares of Rs. 10 each.	1,00,000	50,000
Share premium	–	2,000
P & L A/c	38,000	4,000
Preference shares	20,000	–
10% debentures	15,000	5000
	1,73,000	**61,000**
Fixed Assets	1,22,000	35,000
Net current assets	51,000	26,000
	1,73,000	**61,000**
Annual profits available to equity shareholders (Rs)	24,000	15,000
Market price per share (Rs)	24	27
P/E ratio	10	9

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

a) Net assets value
b) E. P. S.
c) M. P. S.

Which method would you prefer from company A's point of view ?

OR

Company X requires company Y. The position before take over was as follows :

	Company X	**Company Y**
Total Earnings (Rs.)	2,00,000	1,00,000
No. of Shares (Rs)	20,000	10,000
Market Price Per Share (Rs.)	20	15

The share holders of company Y are offered 7500 shares of company X for 10,000 shares.

Calculate EPS of the merged company vis-a-vis before takeover and gain or loss of the shareholders of two the companies consequent to merger.

(b) Explain different types of mergers. Marks : 5

OR

What are the benefits of merger and acquisition ?