0432

Fourth Semester of 5 Yrs. B.B.A. LL.B. Examination, June/July 2015
FINANCIAL MANAGEMENT

Duration : 3 Hours Max. Marks : 100

Instructions : 1. Answer Q. No. **9** and **any five** of the remaining questions.
2. Q. No. **9** carries **20** marks and the **remaining** questions carry **16** marks **each**.
3. Answers should be written either in **English** or **Kannada** completely and use simple calculator.

Q. No. 1. The Kaveri company is planning to expand its business and accordingly the company desires to increase assets by 50% by the end of the year 2013. The existing capital structure is as given below : Marks : 4×16=64

OR

Particulars	**Rs.**
Equity Shares	10,00,000
(Par value of Rs. 100 per share)	
10% Preference Shares	2,00,000
(Par value of Rs. 100 per share)	
9% Debentures	8,00,000
(Par value Rs. 1000 per debenture)	
	20,00,000

New debentures can be sold at par at 12% interest rate.

Preference shares will have a 14% dividend rate and sold at par. Equity shares can be sold at net Rs. 90 per share. The shareholders required rate of return is 9% which is expected to grow at 5%. Retained earnings for the year are estimated to be Rs. 1,00,000.

You are required to compute the cost of individual capital components and the overall cost of capital.

Q. No. 2. Explain various factors which influence the capital structure of a company.

Q. No. 3. What is working capital ? What are the different classifications of working capital ? What are the merits and demerits of working capital ?

Q. No. 4. Shiva Ltd. is planning to invest into a new equipment costing Rs. 80,00,000. The equipment has economic life of 5 years with nil salvage value. The tax rate is 40%. Original cost method is used for depreciation.

Year	**CFBDT (Cash Flow Before Depreciation and Tax)**
1	20,00,000
2	30,00,000
3	40,00,000
4	60,00,000
5	50,00,000

Calculate:

1) Pay back period
2) NPV @ 12%
3) ARR
4) IRR
5) BCR @ 15%

Q. No. 5. What is Merger ? Explain various reasons for merger.

Q. No. 6. A company belongs to a risk class for which the appropriate discount rate is 10%. It currently has 50000 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. 5,00,000 and a proposal for making new investments of Rs. 10,00,000. Show that under the MM assumptions, the payment of dividend does not affect the value of the firm.

Q. No. 7. M Ltd. decides to takeover X Ltd. Following data is available.

	M Ltd.	**X Ltd.**
No. of Shares	400000	300000
EPS	12	10
P/E ratio	6	5
MP of shares	70	50

Exchange rario is 0.8 shares for every share of X Ltd.

Find out :

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

Q. No. 8. Write short note **any two** of the following : Marks : 2×8=16

a) Advantages and limitations of cost of capital.

b) Working capital cycle.

c) Multinational capital budgeting.

Q. No. 9. Solve **any two** of the following problems : Marks : 2×10=20

a) ABC Company Ltd. has got Rs. 20,000 to invest. The following proposals are under consideration :

Project	**Initial Outlay**	**Annual Cash flow**	**Life in Years**
A	10,000	2,500	5
B	8,000	2,600	7
C	5,000	1,200	15
D	10,000	2,400	20
E	5,000	1,150	15
F	6,000	2,400	6
G	3,000	1,500	2

a) Rank these projects in order of their desirability under the pay back period method.

b) Rank these projects under the net present values assuming the cost of capital to be 10%.

b) Mr. A has a company which belong 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. The company expects to have a net income of Rs. 50,000 and has a proposal for new investment of Rs. 1,00,000. Show that the payment of dividend does not affect the value of the firm.

c) From the following data compute duration of operating cycle :

		Rs. '000
Particulars	**Year 1**	**Year 2**
Raw materials	25	32
Work in progress	15	18
Finished goods	21	24
Purchases	95	140
Cost of goods sold	145	175
Sales	170	215
Debtors	32	15
Creditors	16	20

Assume 360 days per year for computation purpose.