Fourth Semester 5 Years B.B.A. LL.B. Examination, December 2014
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 in **English completely**.
4. **Use** simple Calculator.

Q. No. 1. The capital structure of Sun Ltd. is as follows : Marks : 4×16=64

Equity share capital	10,00,000
6% Preference share capital	5,00,000
8% Debentures	15,00,000

The company has made a profit of Rs. 25,000. The company is under 50% tax bracket. It has 1000 equity shares of Rs. 100 each and market price of whcih is Rs. 145 each and the growth in dividend is 8%.

(a) Calculate the weighted average cost of capital.

(b) Also calculate the new weighted average cost of capital if the company raises an additional Rs. 10,00,000 debt by issuing 10% debentures. This would result in an increase in the expected dividend by Rs. 5 per share, growth rate in dividend has increased to 9% and the market price will come upto Rs. 150 per share.

Q. No. 2. What are the factors that influence dividend policy ?

Q. No. 3. 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 :

Year	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) Inter rate of return

d) Profitability index

e) Accounting rate of return.

Q. No. 4. Explain the factors influencing the working capital requirements.

Q. No. 5. Company A acquires comapny B. The position before takeover was as follows :

	Company A	Company B
Total Earnings (Rs.)	4,00,000	2,00,000
No. of Shares (Rs.)	40,000	20,000
Market price per share (Rs.)	40	30

The share holders of Company B are offered 15,000 shares of Company A for 20,000 shares.

Calculate EPS of the merged company before takeover and gain or loss of the share holders of two companies consequent to merger.

Q. No. 6. Explain traditional and Modigliani propositions under capital structure theories.

Q. No. 7. Explain various factors peculiar to multinational firms.

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

a) Inventory Management

b) Advantages of cost of capital

c) Deed structuring.

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

a) An Indian based multinational firm is considering a project to be set up in the UK. The project will entail an initial outlay of Rs. 200 million and is expected to generate the following cash flow over its lifetime.

Year :	1	2	3	4	5
Cash flow (in million) :	Rs. 50	Rs. 70	Rs. 90	Rs. 105	Rs. 80

The current spot exchange rate is Rs. 95/UK£. The risk free rate in India is 11% and in UK is 6%. The firm required rupee return on the project is 18%.

Calculate NPV of the project using home currency approach.

b) Following are the details regarding capital structure of XYZ Co. Ltd.

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 WACC of capital using market value as weights.

c) You are given below the estimates. As a finance manager, set up your calculations for the average amount of the working capital required for the year ending 30-9-2013 after making a provision of 25% for contingencies.

	Rs.
Stock of finished products	10,000
Stock of stores, materials etc	20,000
Domestic credit sales 6 weeks	1,75,000
Export credit sales 3 weeks	45,000
Lag in payment of wages and other out goings :	
Wages 1.5 weeks	1,50,000
Cost of materials 1.5 months	36,000
Rent 6 months	15,000
Clerical staff 0.5 month	55,000
Manager 0.5 month	4,800
Miscellaneous expenses 1.5 months	50,000
Prepaid sundry expenses quarterly	8,000