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)	

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

20,00,000

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
(Cas	sh 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) Day back no	ariod

- 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: $2\times8=16$

Marks: 2×10=20

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

Project	Initial	Annual	Life in
	Outlay	Cash flow	Years
Α	10,000	2,500	5
В	8,000	2,600	7
С	5,000	1,200	15
D	10,000	2,400	20
Е	5,000	1,150	15
F	6,000	2,400	6
G	3,000	1,500	2

- **0432** -4
 - 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 15 18 Work in progress 21 24 Finished goods **Purchases** 95 140 Cost of goods sold 145 175 Sales 170 215 **Debtors** 32 15 20 Creditors 16

Assume 360 days per year for computation purpose.