0432

IV Semester 5 Year B.B.A., LL.B. (New) Examination, December 2016
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. What is Financial Management ? Explain significance and scope of financial management. Marks : 16

Q. No. 2. What is Cost of Capital ? Explain its importance and problems in determining cost of capital. Marks : 16

Q. No. 3. Calculate the Weighted Average Cost of Capital from the following information : Marks : 16

8000 Equity Shares of Rs. 100 each fully paid	8,00,000
6000 6% Debentures	6,00,000
2000 6% Preference shares	4,00,000
Retained earnings	2,00,000

Earnings per equity share has been Rs. 10 during the past years and equity shares are being sold in the market at par (i.e. Rs. 100 per share). Assume that Corporate tax at 50% shareholders tax liability 25%.

Q. No. 4. Explain MM Approach of capital structure theory. Marks : 16

P.T.O.

Q. No. 5. The cost sheet of A Ltd., provides the following particulars : Marks : 16

Elements of cost

Material	40%
Direct labour	20%
Overheads	20%

The following particulars are further available :

1) It is proposed to maintain a level of activity of Rs. 3,00,000 units.
2) Selling price is Rs. 15 per unit.
3) Raw materials are expected to remain in stores for an average period of one month.
4) Materials will be in process on average half a month.
5) Finished goods are required to be in stock for an average period of one month.
6) Credit allowed to debtors is two months.
7) Credit allowed by suppliers is one month.

You may assume that sales and production follow a consistent pattern.

You are required to prepare a statement of working capital requirements.

Q. No. 6. A firm whose cost of capital is 10% is considering 2 mutually exclusive projects x and y the details of which are as under : Marks : 16

Particulars	**Project x**	**Project y**
Investment	70,00,000	70,00,000
Cash inflows :		
Year 1	10,00,000	50,00,000
2	20,00,000	40,00,000
3	30,00,000	20,00,000
4	45,00,000	10,00,000
5	60,00,000	10,00,000

Compute NPV @ 10% and IRR for the 2 projects.

Q. No. 7. Explain various methods of Inventory Management. Marks : 16

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

a) Multinational Capital Budgeting

b) CAPM

c) Debtor's Management.

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

a) 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 him. The data for the two companies are given below :

	Large Co.	**Small Co.**
PAT (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 Large Co. Shareholders ?

b) The relevant financial information for Xavier Ltd., for the year ended 2005 is given below :

Sales : Rs. 80 million

Cost of goods sold : Rs. 56 million

Inventory :

Beginning : 9 million

Ending : 12 million

Accounts Receivable :

Beginning : 12 million

Ending : 16 million

Accounts payable :

Beginning : 7 million

Ending : 10 million

What is the length of operating cycle ? The cash cycle ? Assume 365 days to a year.

c) Following is the Capital Structure of Sun Ltd. :

1) Equity shares 1000 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.