Fourth Semester Five Year B.B.A.,LL.B. Examination, January 2012
FINANCIAL MANAGEMENT

Duration : 3 Hours Max. Marks : 100

Instructions : 1. Answer all **5** Questions.
2. Figures to the right indicate marks.

UNIT – I

Q. No. 1. (a) Following are the details of ENKAY Ltd. Marks : 15

Types of capital	**Book value**	**Market value**	**Specific cost**
Debt	4,00,000	3,80,000	5%
Preference capital	1,00,000	1,10,000	8%
Equity shares	6,00,000	12,00,000	15%
Retained earnings	2,00,000	–	13%
	13,00,000	**16,90,000**	

Determine the weighted average cost of capital using :

i) Book value weights ii) Market value weights.

OR

Q. No. 1. (a) Manu Ltd. has the following capital structure :

	₹
Equity share capital	
(2,00,000 share of ₹ 20 each)	40,00,000
6% preference share capital	10,00,000
8% debentures	30,00,000

The market price of equity share is ₹ 20 per share. The company is expected to pay dividend of ₹ 2 per share which will grow at 7%.

a) Calculate weighted average cost of capital assuming that the company is under 50% tax bracket.

b) Also calculate the new weighted average cost of capital if the company raises an additional ₹ 20,00,000 debt by issuing 10%, debentures. This would result in increase in the expected dividend to ₹ 3 per share and leave the growth rate unchanged, but the market price of the share will come down to ₹15 per share.

Q. No. 1. (b) Write a short note on Sharpe Lintner Model. Marks : 5

OR

Write a short note on empirical evaluation of a model.

UNIT – II

Q. No. 2.(a) Mr. Bean has a company which belong to a risk class for which the appropriate capitalisation rate is 10%. It currently has outstanding 25,000 shares selling at ₹ 100 each. The firm is contemplating the declaration of a dividend of ₹ 5 per share at the end of the current financial year. The company expects to have a net income of ₹ 2,50,000 and has a proposal for making new investments of ₹ 5,00,000. Show that under the MM assumptions, the payment of dividend does not affect the value of the firm. Marks : 15

OR

Q. No. 2. (a) Define "dividend policy" and explain its nature. Explain the types of dividend policy with examples. What are the objectives of dividend policy ?

Q. No. 2. (b) What are the factors that influence the dividend policy ? Marks : 5

OR

Write a short note on traditional proposition of dividend policy.

UNIT – III

Q. No. 3. (a) The board of directors of Ram Engineering Ltd. request you to advise them the average amount of working capital required in the first year's working. You are given the following estimates and are instructed to add 10% to your computed figure to allow for contingencies. Marks : 15

	₹
1) Amount blocked up for stocks	
stock of finished product	7,000
Stock of stores materials	10,000
2) Average credit given	
Inland sales 6 weeks credit	2,08,000
Export sales 1 ½ week credit	78,000
3) Lag in payment of wages and other out	
going wages 2 weeks	2,60,000
Stock of materials etc. 1 ½ month	48,000
Rent Royalties etc. 6 months	10,000
Clerical staff ½ month (ie 0.5 month)	62,400
Manager salary ½ month (ie 0.5 month)	4,800
Miscellaneous expenses 1 ½ months	48,000
4) Payment in advance	
sundry expenses	
(paid quarterly in advance)	8,000
5) Undrawn profit on the average throughout	
the year	13,000

OR

Q. No. 3. (a) Define working capital. What are the different classification of working capital ? What are the merits and demerits of working capital ?

Q. No. 3. (b) Explain any 2 inventory techniques being adopted by business concerns. Marks : 5

OR

Write a short note on working capital cycle.

UNIT – IV

Q. No. 4. (a) A company is considering an investment proposal to install new machine at a cost of Rs. 50,000. The facility has a life of 5 years and no salvage value. The tax rate is 35%. Assume the firm uses straight line depreciation for tax purposes. Marks : 15

Year	**CFBT (₹)**
1	10,000
2	10,692
3	12,769
4	13,462
5	20,383

Calculate :

a) Payback period

b) ARR

c) IRR

d) NPV @ 10%

e) PI @ 12%

OR

Q. No. 4. (a) XYZ Company Ltd. has got ₹ 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	4,000	1,000	15
D	10,000	2,400	20
E	5,000	1,125	15
F	6,000	2,400	6
G	2,000	1,000	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 index assuming the cost of capital to be 10%.

Q. No. 4. (b) What do you understand by a capital budgeting decision ? Why is capital budgeting so important to management ? Marks : 5

OR

Write a short note on managing finance in multinational corporations with examples.

UNIT – V

Q. No. 5. (a) Girish Ltd. acquires Suresh Ltd. for a consideration of Rs. 76,00,000 to be satisfied in the form of fully paid equity shares of ₹ 10 each. The balance sheets of the two companies on 31-12-2010, the date of acquisition were as follows : Marks : 15

Liabilities	Girish	Suresh	Assets	Girish	Suresh
Equity share capital shares of ₹10 each	80,00,000	50,00,000	Sundry Assets	1,92,00,000	1,16,00,000
General reserves	30,00,000	6,00,000			
Development rebate reserve	6,00,000	2,00,000			

Export profit reserve	12,00,000	8,00,000			
P/L Account	24,00,000	18,00,000			
Sundry liabilities	40,00,000	32,00,000			
	1,92,00,000	**1,16,00,000**		**1,92,00,000**	**1,16,00,000**

You are required to pase incorporation journal entries in the books of Girish Ltd. (Transfer Company) when amalgamation is

a) By way of purchase

b) Prepare the balance sheet after amalgamation presuming that the development rebate reserve and export profit reserve are required to be maintained.

OR

Q. No. 5. (a) Priya Ltd. wants to take over Ram Ltd. and the financial details of both the companies are as below.

Liabilities	**Priya**	**Ram**
Equity share capital of ₹ 50 each	10,00,000	5,00,000
Preference share capital	2,00,000	–
Share premium	–	20,000
Profit and loss account	3,80,000	40,000
6% debentures	1,50,000	50,000
Total liabilities	**17,30,000**	**6,10,000**
Assets		
Fixed assets	12,20,000	3,50,000
Current assets	5,10,000	2,60,000
Total assets	**17,30,000**	**6,10,000**
Profit after tax and preference dividend	2,40,000	1,50,000
Market price per share	120	135

You are required to determine the share exchange ratio to be offered to the share holders of Ram Ltd. based on :

a) Net assets value

b) Earnings per share and

c) Market value of share.

Which method would you prefer from Priya Company's point of view ?

Q. No. 5. (b) What are the characteristics of Mergers and Acquisitions ? Marks : 5

OR

Explain the reasons for mergers and acquisitions.