2M5103

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M. B. A. II Sem. (Main / Back) Exam., April – May 2017

M-203A Financial Management

Time: 3 Hours **Maximum Marks: 70**

Min. Passing Marks: 28

Instructions to Candidates:

(i) The question paper is divided in two sections.

*(ii) There are sections A & B. Section A contains **6** questions out of which the candidate is required to attempt any **4** questions. Section B contains short case study / application based question which is **compulsory**.*

*(iii) All questions carry **equal** marks.*

1. NIL 2. NIL

SECTION – A

Q.1 "Financial Management is nothing but managerial decision making on asset mix, capital mix and profit allocation". Explain. [14]

Q.2 Write note on: [7+7=14]

(a) Shares

(b) Lease Financing

Q.3 What is Capital Budgeting and why it is important? Explain various appraisal techniques of capital budgeting. [7+7=14]

Q.4 Consider the following figures pertaining to risk free rate, market rate and return rate of a security A during the last 6 years. [14]

Year	Risk free rate (R_f)	Market rate (R_m)	Security return (R_j)
1	0.06	0.14	0.08
2	0.05	0.03	0.11
3	0.07	0.21	0.29
4	0.08	0.26	0.25
5	0.09	0.03	0.07
6	0.07	0.11	0.04

On the basis of the above information, you are required to determine the cost of equity capital in the context of CAPM. Past data may be taken as proxy for the future.

Q.5 Rama Steel Mills is considering the possibility of raising ₹ 5,00,000 by issuing equity shares, preference shares and debentures. The book values and market values of the issues are as follows: [14]

	Book Values	Market Values
Equity Shares	2,00,000	3,00,000
Preference shares	1,00,000	1,20,000
Debenture	2,00,000	1,80,000
Total	5,00,000	6,00,000

The following costs are expected to be incurred on the above mentioned issues of capital. Corporate tax rate is 50 percent.

(a) The company's equity share is currently selling for ₹ 150. It is expected that the company will pay a dividend of ₹ 8 per share at the end of next year which is expected to grow at a rate of 7 percent. The company has to incur ₹ 5 per share as floatation cost.

(b) The 11 percent ₹ 100 face value preference share will be sold for ₹ 125. However, the company will have to pay ₹ 6 per preference share as underwriting commission.

(c) The company can sell a 10 year ₹ 500 face value debenture with 9 percent rate of interest. An underwriting fee of 2 percent on issued price would be incurred to issue the debentures.

Compute the weighted average cost of capital using :

(a) book value weights, and

(b) market value weights.

Q.6 The following figures are shown by cost sheet of a company: [14]

Elements of cost	Amount per unit
Raw Material	₹ 80
Direct Labour	₹ 30
Overheads	₹ 60
Total cost	₹ 170
Profit	₹ 30
Selling price	₹ 200

The following particulars are further available:

Raw material is in stock on an average of one month. Materials are in process on an average of half a month. Finished goods are in stock on an average of one month. Credit allowed by supplier is one month. Credit allowed to debtors is two months. Lag in payment of wages is one and half weeks. Lag in payment of overhead expenses is one month.

One fourth of output is sold against cash. Cash in hand and at bank is expected to be ₹ 25,000. You are required to prepare a statement showing the working capital needed to finance a level of activity of 1,04,000 units of production.

It may be assumed that production and overheads accrue evenly throughout the year. A period of 4 weeks is equivalent to a month.

SECTION – B

Q.7 X & Co. Ltd. is considering two mutually exclusive projects. The following are the information for the same: [14]

Initial investment	₹ 20,000
Life time of the project	5 Years
Required rate of return	10%
Tax	50%

The net cash inflows (in ₹) before tax and depreciation are:

Year	1	2	3	4	5
Project A	8,000	8,000	8,000	8,000	8,000
Project B	10,000	8,000	4,000	10,000	10,000
Present value of ₹ 1 @ 10%	0.909	0.826	0.751	0.683	0.621

The project will be depreciated on straight line method.

You are required to calculate:

(1) The pay – back period of each project.

(2) The average rate of return of each project.

(3) The net present value of each project.

(4) The profitability index of each project.
