VPM's
DR VN BRIMS, Thane
Programme: MMS (2014-16)
Second Semester Examination April 2015

Subject	**Financial Management**		
Roll No.		**Marks**	**60 Marks**
Total No. of Questions	**7**	**Duration**	**3 Hours**
Total No. of printed pages		**Date**	**15-04-2015**

Note: Q1 is compulsory and solve any FOUR from the remaining SIX questions.

Q1) 20 Marks (Compulsory)

A) From given information relating to Nanak Engineering Co., prepare a statement of working capital requirement for an estimated level of 1, 44,000 units of production p.a.

Raw Material	Rs.90 per unit
Direct Labour	Rs.40 per unit
Overheads	Rs.75 per unit
Profit	Rs.60 per unit
Selling Price	Rs.265 per unit

1. Raw Materials are in stock on an average for one month
2. Materials in process on average for 2 weeks
3. Finished goods are in stock on an average for one month
4. Credit allowed by suppliers in one month
5. Time lag in payment from debtors is 2 months. Debtors to be valued at cash cost.
6. Lag in payment of wages is 1.5 weeks
7. Lag in payment of overheads is one month.
8. 20% of output is sold for cash.
9. Cash in hand and at bank is expected to be Rs.60, 000

Assume that production is carried on evenly throughout the year. Wages and overheads accrue similarly and period of 4 weeks is equal to a month. **(12 Marks)**

B) Total sales (all credit sales) of a company are Rs 6, 40,000. It has gross margin of 15% and current ratio of 2.5:1. Current liabilities are Rs 96,000, inventories Rs 48,000 and cash Rs 16,000. Determine the average inventory to be carried by the firm if an inventory turnover of 5 times is expected. Determine the average collection period if the opening balance of debtors is Rs 80,000. (Assume 360 days for calculation) **(8 Marks)**

Attempt Any FOUR from the Remaining SIX Questions

Q2) ***Any two from (a) or (b) or (c) ————— (5x2) = 10 Marks***

ABC Ltd is expecting an annual EBIT of Rs 2 lakhs. The company in its capital structure has Rs.8 Lakhs in 10% Debentures. The cost of equity is 12.5%.

a) Compute the value of the firm as per NI approach and overall cost of capital.

b) The company has decided to raise additional funds of Rs. 2 lakhs by issuing debentures and the proceeds so generated will be used to buyback equity shares. Compute the value of the firm as per NI approach and overall cost of capital.

c) Define capital structure and explain traditional theory of capital structure

Q3) ***Any two from (a) or (b) or (c) ————— (5x2) = 10 Marks***

a) 15% debentures of Rs.1000 each are issued at discount of 5% with floatation cost of 2.5% and redeemable after 10 years. Tax rate is 35%. Calculate the cost of debt. Additionally explain the meaning of cost of debt.

b) Equity shares are being traded at Rs.50 per share; dividend per share is Rs.6. Dividends are expected to grow by 5%. Arrive at cost of equity using dividend yield approach. Also explain the dividend yield theory with reference to cost of equity.

c) For a company risk-free rate of return is 10%, Beta coefficient is 1.5, Return on market portfolio is 12.5%. Find the cost of equity using CAPM approach. Also state the assumptions and limitations of CAPM theory.

Q4) ***Any two from (a) or (b) or (c) ————— (5x2) = 10 Marks***

Excel Engineering is considering an investment proposal to install a new machinery at a cost of Rs.50,000. Machinery has a life expectancy of 5 years and no salvage value. Tax rate is 35%. The company uses straight line method of depreciation. The estimated profit before tax and depreciation is given below.

Year	**PBDT (Rs)**
1	10,000
2	10,692
3	12,769
4	13,462
5	20,385

Calculate Any two of below:

a) Payback period

b) ARR

c) NPV (at 10%)

d) IRR

PV Factors at 10% are as follows-

- Year 1: **0.909**,
- Year 2: **0.826**,
- Year 3: **0.751**,
- Year 4: **0.683**,
- Year 5: **0.621**

Q5) ***Any two from (a) or (b) or (c) ————— (5x2) = 10 Marks***

a) Following information is given for Telnet Systems Ltd

- Earning per share Rs 5
- Rate of return required by shareholders: 16%

As per Gordon`s model, what will be the rate of return that should be earned to ensure market price of Rs 50 price per share if the payout ratio is 40%?

b) The present share capital of A Ltd consists of 1,000 shares selling at Rs 100 each. The company is contemplating a dividend of Rs 10 per share at the end of the current financial year. The company belongs to a risk class for which appropriate capitalization rate is 20%. The company expects to have a net income of Rs 25,000. What will be the price of the share at the end of the year if:

(i) Dividend is not declared

(ii) A dividend is declared.

Presuming that the company pays the dividend and has to make new investment of Rs 48,000 in the coming period, how many new shares are to be issued to finance the investment plan? You are required to use the MM model for this purpose.

c) Write a note on Debtors Turnover Ratio and average collection period. Explain its significance with reference to working capital management.

Q6) ***Any two from (a) or (b) or (c) ————— (5x2) = 10 Marks***

Following are balance sheets of Pioneer Ltd.

Liabilities	**31-Mar-01**	**31-Mar-02**
Equity Capital	1,500,000	2,500,000
5% Preference Capital	1,500,000	1,000,000
General Reserve	200,000	300,000
Capital Reserve	-	250,000
Profit & Loss Account	180,000	270,000
Sundry Creditors	260,000	530,000
Bills Payable	180,000	120,000
Provision for taxation	280,000	320,000
Proposed Dividend	270,000	330,000
Total	**4,370,000**	**5,620,000**
Assets		
Goodwill	600,000	470,000
Land & Building	1,000,000	750,000
Plant & Machinery	900,000	1,910,000
Trade Investments	100,000	350,000
Stock	850,000	780,000
Sundry debtors	600,000	900,000
Bills Receivable	150,000	180,000
Cash at bank	100,000	220,000
Cash in hand	70,000	60,000
Total	**4,370,000**	**5,620,000**

Additional Information-

- Rs 1, 80,000 have been charged as depreciation on plant & machinery.
- A piece of land has been sold and profit out of this sale has been transferred to Capital Reserve.
- Machinery was sold for Rs 1, 20, 000 (WDV Rs 1, 50,000).
- An interim dividend of Rs 1, 00,000 has been paid in the year 2002.

Attempt any two of below

a) Cash flow from operations.

b) Cash flow from investing activities and financing activities. Explain their significance in corporate finance.

c) Write a note on cash flow statement and its significance.

Q7) ***Any two from (a) or (b) or (c) ————— (5x2) = 10 Marks***

Write short notes on following: (Attempt any 2)

a) Leverage Ratios

b) Time Value of Money and its significance

c) Concept of Credit Rating

d) Modigliani-Miller Theory of Dividend

e) Concept of Wealth Maximization

f) EPS and Dividend Yield