VPM's
DR VN BRIMS, Thane
Second Semester Examination April 2019

Subject	**Financial Management**		
Roll No		**Marks**	**60 Marks**
Total No. of Questions	**7**	**Duration**	**3 Hrs**
Total No. of printed pages	**4**	**Date**	**20.04.2019**

Instructions:

- **Question no.1 is compulsory & carries 20 marks.**
- **Attempt Any Four out of the remaining six Questions.**
- **Figures to the right indicate marks in full.**

Q1. Answer following two questions(compulsory)

A. Success Ltd has Rs.50,00,000 allocated for Capital Budgeting Purposes. The following Proposals and their associated Profitability Index are under consideration:

Project	Investment (Rs.)	Profitability Index
A	15,00,000	1.22
B	7,50,000	0.95
C	17,50,000	1.20
D	22,50,000	1.18
E	10,00,000	1.20
F	20,00,000	1.05

Which of the above should be undertaken? Assume that all the Projects are Indivisible and there is no alternative use of money allocated for Capital Budgeting. **(Marks -10)**

B. Large company is engaged in evaluating an investment project which requires an Initial Cash Outlay of Rs.2, 50,000 on equipment. The Project's economic life is 5 years and its salvage value is Rs.40, 000.The company would require Working Capital of Rs.50,000 for the Project. The Project is expected to yield annual profit (Before Depreciation and Tax) of Rs.1, 20,000. Depreciation to be calculated on SLM basis. Income Tax Rate is assumed to be 40%. If the minimum required rate of return is 20%, should the Project be accepted? **(Marks - 10)**

Q2. Answer **Any two** from the following.

The following details relate to XYZ Ltd.

BALANCE SHEET	**31.03.2010**	**31.03.2011**
Liabilities	Rs.	Rs.
Shareholders' Funds		
Share Capital (Rs 10 per share)	25,00,000	25,00,000
Reserves & Surplus	20,75,000	23,65,000
14% Debentures	15,00,000	12,50,000
Sundry Creditors	2,56,250	3,04,250
Expenses Outstanding	54,500	68,500
Provision for Bad Debts	20,000	22,500
Total	**64,05,750**	**65,10,250**
Assets		
Gross Fixed Assets	60,00,000	65,00,000
Less Depreciation	20,00,000	24,50,000
Net Fixed Assets	40,00,000	40,50,000
Investments	6,25,000	2,50,000
Stocks	10,33,250	12,67,750

Debtors	4,00,000	4,50,000
Cash & Bank Balance	3,35,500	4,83,500
Preliminary Expenditure	12,000	9,000
Total	**64,05,750**	**65,10,250**

Profit & Loss account for the year ended 31.03.2011			
	Rs.		Rs.
To Opening Stock	10,33,250	By Sales	91,00,500
To Purchases	48,84,500	By Closing Stock	12,67,750
To Gross Profit	44,50,500		
	1,03,68,250		**1,03,68,250**
To Operating Expenses	19,58,750	By Gross Profit	44,50,500
To Provision for Bad Debts	2,500	By Law Suit Compensation	1,25,000
To Depreciation	4,50,000	By Interest on Investments	65,000
To Preliminary Expenditure written off	3,000	By Profit on Sale of Investments	18,750
To Interest on Debentures	1,92,500		
To Income Tax Paid	8,21,000		
To Net Profit	12,31,500		
	46,59,250		**46,59,250**

From the above, calculate the following **Any Two** by using the Indirect Method of preparing cash flows:

a) Cash Flow from Operating Activities (Marks -5)
b) Cash Flow from Investing Activities (Marks -5)
c) Cash Flow from Financing Activities (Marks -5)

Q3. Answer **Any two** from the following.

a) Using CAPM approach, calculate the Cost of Equity Capital for a firm:

i Return on Government securities is 8%.
ii Required rate of return on market portfolio of investment is 13%.
iii The firm's Beta is 1.6 **(Marks -5)**

b) Better Life Ltd has the following Capital structure :

Equity Shares (Rs.10 each)- Rs.120 lacs
12% Preference Shares (Rs.100 each)- Rs 280 lacs
14% Debentures (Rs.100 each)- Rs 60 lacs

The market price of the company's equity share is Rs.20, preference Share is Rs.100 and that of debentures is Rs.80 .It is expected that the company will pay next year a dividend of Rs. 2 per share which will grow at 8% forever.Assuming tax rate of 40%, compute –Cost of Equity, Cost of Preference Shares and Cost of Debentures. **(Marks -5)**

c) Compute Weighted Average Cost of capital for BETTER LIFE Ltd considering the information given above (Based on Market Value) **(Marks -5)**

Q4. Answer **Any two** from the following.

The following ratios are given for Mintex Company:

Net Profit margin - 4%
Current ratio -1.25
Return on Net Worth - 15.23%
Total Debt to Total assets ratio - 0.40
Inventory Turnover ratio-25

The Debts of the company carry interest rate of 15%.
Total Current Assets (Including Receivables –Rs.60,000) – Rs.1,80,000
a) Complete the following using the information given above: (Marks -5)

PROFIT & LOSS ACCOUNT	
(All figures in Rs)	
Sales	
Cost of Goods Sold	
Operating Expenses	7,00,000
Profit before Interest & Tax	
Interest	45,000
Profit before Tax	
Tax Provision (50%)	
Profit after Tax	

b) Complete the following using the information given above: (Marks -5)

BALANCE SHEET			
Net Worth		Net Fixed Assets	
Long Term Debt		Current Assets	
Accounts Payable		Cash	
		Receivables	
		Inventory	
Total		Total	

c) Discuss the Dividend theory propounded by James .E.Walter .

Q5. Answer **Any two** from the following.

a) The Profit & Loss account of Alpha Company Limited for the year ended on 31.03.2006 is given below:(Figures in Rs)

Net Sales		5,00,000
Cost of Goods Sold	2,10,000	
Gross Profit		2,90,000
Operating Expenses		
Administration	45,000	
Selling	25,000	
Interest	12,000	
Depreciation	22,000	
Operating Profit		1,86,000
Add: Gain on Sale of Plant	12,000	
Less: Preliminary Expenses written off	6,000	
Total Profit		1,92,000
Provision for Tax	87,000	
Profit After Tax		1,05,000
Less: Dividend declared @ 10%	15,000	
Retained Profit		90,000

From the above, calculate Funds from Operations. **(Marks -5)**

b) What is Working capital? What do you understand by Zero Working capital Concept? How does Working capital impact Profitability and Liquidity of an Organization? Discuss. **(Marks -5)**

c) Vaishali Engineering Co. is considering the purchase of a machine. There are two possible machines under consideration. The details of the machines are as below:

	Machine A	**Machine B**
	Rs.	**Rs.**
Capital Cost	30,000	30,000

Sales (at Standard Price)	50,000	40,000
Cost:		
Labour	5,000	3,000
Materials	4,000	5,000
Overheads	8,000	6,000
Selling Costs	1,000	1,000
Expected life in years	5	5

The above Sales /costs are annual Sales /costs and are expected to continue at the above level throughout the machine life. If tax rate is 50%, advice on the basis of Payback Period as to which machine should be chosen. **(Marks -5)**

Q6. Answer **Any two** from the following.

a) A new Project under consideration requires a capital outlay of Rs.300 lacs. The required funds can be raised either

i. Fully by Equity Shares of Rs.100 each or

ii. By Equity shares of value Rs.200 lacs and Loan of Rs.100 lacs @15% interest. Assuming a tax rate of 50%, calculate the level of Profit before Tax that would keep the Equity Investors indifferent to the two options. Verify your answer by calculating EPS. **(Marks -5)**

b) A Company's Capital Structure consists of the following:

Particulars	Rs in Lacs
Equity Shares (Rs 100 each)	20
9% Preference Shares	12
6% Debentures	8
Total	40

The company earns a return of 12% on its investment. The Income Tax rate is 50% .The Company requires a sum of Rs.25 lacs to finance its expansion for which the following alternatives are available to it

i Option A : Issue 20,000 Equity Shares at a Premium of Rs.25 per share

ii Option B : Issue of 10% Preference Shares .

iii Option C : Issue of 7% Debentures

It is estimated that the Price Earnings Ratio in the case of Option A,B and C will be 21.4,17 and 15.7 respectively. Which of the following financing alternatives would you recommend? **(Marks -5)**

c) What do you understand by PPP model? Elaborate on the risk and advantages **(Marks -5)**

Q7. Answer **Any two** from the following.

Explain the following terms: (Any Two) (**Marks-10)**

a) Role of Financial Manager

b) Profit Maximization

c) Inventory Management