FM02

Roll No. :
Total no of Questions: 10
Duration in hours: 3Hours

Total No of printed pages : 04
Section I & Section 2 = 60 Marks

Section I Marks 30

Solve Section I and II on SEPARATE Answer Book.

[Answer any **three**]

Q1) The net cash flow from a project (with initial investment of Rs. 16,20,000) are as follows:

Year	Cash Flows (Rs.)
1	2,00,000
2	4,00,000
3	5,00,000
4	5,25,000
5	5,40,000
6	6,00,000
7	6,50,000

The cost of capital is 50% find out the following.

a) Discounted payback period

b) Net present value at 15%

c) Profitability Index at 15%

Present value factor at 15% are as follows.

Year	1	2	3	4	5	6	7
PVF@15%	0.870	0.756	0.658	0.572	0.497	0.432	0.376

Q2) AB Ltd. Provides the following information

	Rs.
Profits before interest and Tax	3,00,000
Less interest an debenture at 12%	60,000
	2,40,000
Tax at 50%	1,20,000
Profits after Tax	1,20,000

Number of equity shares (Rs.10 each)	40,000
EPS (Earning Per Share)	Rs.3
MPS (Market price per share)	Rs. 30
P/E ratio	10

The company has undistributed reserves of Rs. 6,00,000. The company needs 2,00,000 for expansion. This amount will earn the same rate as funds already employed. You are required to ascertain the probable price of the share assuming no change in P/E ratio, for both the alternatives.

1. If additional funds are raised as 14% debt.
2. If additional funds are raised by issuing equity shares (Rs. 10 each).

Q3) Susheel corporation has the following capital structure

	Rs.
Equity capital (Rs. 10 each)	10,00,000
11% preference capital (Rs. 100 each)	1,00,000
Retained Earnings	12,00,000
13.5% Debentures (Rs. 100 each)	5,00,000
12% term loans	8,00,000
	36,00,000

The next expected dividend per share is Rs. 1.50. The dividend per share is expected to grow at 7%. Market price of equity share is Rs. 20.00 per share. Tax rate 50% calculate weighted average cost of capital using book value weights.

Q4) Discuss the merits and demerits of any three sources of long term finance.

Q5) What are the various methods of evaluating investment proposals – explain.

(Section II Marks 30)

(Answer any **Three** Questions from Q1 to Q5 Each Question Carries 10 Marks)

Q1) Prepare the cash budget of Fashion Fabrics for the month of April,2008 to July, 2008 (four months) from the details given below:

a) Estimated sales during 2008

Feb.	March	April	May	June	July	Aug.
12,00,000	12,00,000	16,00,000	20,00,000	18,00,000	16,00,000	14,00,000

b) On an average 20% of sales are cash sales. The credit sales are realized in the third month (January sales in March)

c) Purchases amounted to 60% of sales. Purchases made in a month are generally sold in the third month and payment for purchases is also made in the third month.

d) Variable expenses (other than sales commission) constitute 10% of sales and there is a time lag of half a month in these payments.

e) commission on sales is paid at 5% of sales value and payment is made in the third month.

f) fixed expenses per month amounted to Rs. 75,000 approximately.

g) Other items anticipated:

		Due
Interest payable on deposits	Rs. 1,60,000	(April,2008)
Sales of old assets	Rs. 12,500	(May, 2008)
Payments of tax	Rs. 80,000	(June, 2008)
Purchase of fixed assets	Rs. 6,50,000	(July, 2008)

h) Opening cash balance Rs. 1,50,000

Q2) RST Limited has received an offer of quantity discounted on its order of materials as under:

Price per tone (Rs.)	Tones number
9,600	Less than 50
9,360	50 and less than 100
9,120	100 and less than 200
8,880	200 and less than 300
8,640	300 and above

The annual requirements for the material is 500 tones. The ordering cost per order is Rs. 12,500 and the stock holding cost is estimated at 25% of the material cost per annum.

Required :

i) Compute the most economical purchase level.

ii) Compute EOQ if there are no quantity discounts and the price per tonne is Rs. 10,500

Q3) A company belongs to a risk- class for which the appropriate capitalization rate is 10%. it currently has outstanding 25,000 shares selling at Rs. 100 each. The firm is contemplating the declaration of dividend of Rs. 5. per share at the end of the current financial year. The company expects to have a net income of Rs. 2.5 lakhs and has a proposal for making new investments of Rs. 5 Lakhs.

a) Calculation of Market Price Per Share under MM – Model

1. If Dividend is declared.
2. If Dividend is not declared.

b) Calculate of Number of shares to be issued if dividend is declared.

Q4) X Ltd. Currently has an annual turnover of Rs. 20 lakhs and an average collection period of 4 weeks. The company proposes to introduce a more liberal credit policy which they hope will generate additional sales, as shown below:

Proposed credit policy	Increase in Collection Period by	Increase in Sales by (Rs.)	Percentage of default
1	2 weeks	2,00,000	2%
2	4 weeks	2,50,000	3%
3	6 weeks	3,50,000	5%
4	8 weeks	5,00,000	8%

The selling price of the product is Rs. 10 and the variable cost per unit is Rs. 7. The current bad debt loss is 1% and the desired rate of return on investment is 20% . For the purpose of calculation, a year is to be taken to comprise of 52 weeks.

Indicate which of the above policies you would recommend the company to adopt.

Q5) What do you mean by Financial Management ? Explain the role of Financial Management ?

OR

Explain Financial goals of an Organization ?