26·04·2009

Financial Management

MMS - II Sem.

FM02

Roll No.

Total No. of Printed Pages : 3

Total No. of Questions : 7

Maximum Marks : 60

Duration (hrs.) : 3 hrs.

Note : Q1 is compulsory Answer any four from the rest. All Questions carry equal marks.

Q 1 The expected cash flows of a project are as follows : (12 Marks)

Year	Cash flows	PVF @ 12%
0	(1,00,000)	1
1	20,000	0.893
2	30,000	0.797
3	40,000	0.712
4	50,000	0.636
5	30,000	0.567

The cost of capital is 12%. Calculate the following.

a) Net Present Value b) Benefit Cost Ratio c) Net Benefit Cost Ratio

d) Payback Period e) Discounted Payback Period.

Q 2

a) Discuss briefly the advantages and disadvantages of Debt Financing (4 Marks)

b) A Company's present capital structure consists of 2,00,000 Equity Shares of Rs. 10 each. It requires Rs. 10,00,000 of external financing for which it is considering two alternatives. (8 Marks)

Alternative 1 – Issue 50,000 equity shares of Rs. 10 Par at Rs. 20 each.

Alternative 2 – Issue 10,000 equity shares of Rs. 10 Par at Rs. 20 each and the Balance by issuing 14% Debentures of Rs. 100 each.

The company's tax rate is 40%

What is EPS – EBIT in difference point for the above two alternatives.

Q 3 (a) A company has a policy of retaining 40% of its profits. If the earnings per share is Rs. 10 and the cost of capital for this company is 16% what return should the company earn on retained earnings to ensure price per share of Rs. 45. Use Gordon Model. (6 Marks)

(b) Shah and Company earns Rs. 6 per share having capitalization rate of 10% and has a return on Investment at the rate of 20% According to Walter's Model what Should be the price per share at 30% dividend payout ratio. Is this optimum payout Ration as per Walter ? (6 Marks)

Q 4 (a) Following is the capital structure of S. Ltd (8 Marks)

	Rs.
Equity Capital (Rs. 10 each)	10,00,000
11% Preference Capital (Rs. 100 each)	1,00,000
Retained Earning	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. 2.00 the dividend per share is expected to grow at 7%. The market price per share is Rs. 20.00. The tax rate of the Company is 40%. Calculate the weighted average cost of Capital.

(b) Determine the EOQ (Economic order Quantity) from the following and also Find out the total number of orders in a year and the time gap between two orders. (4 Marks)

Annual usage	-	40,000 Units
Fixed cost per order	-	Rs. 20
Purchase price per unit	-	Rs. 32
Carrying Cost per Unit	-	Rs. 10

Q 5 (a) What do suppliers look for in granting trade credit ? (Marks 4 x 3)

(b) What are the motives for holding cash ?

(c) Explain Operating cycle ?

Q 6 (a) What are bonus shares ? Discuss the reasons and consequences of a bonus issue. (Marks 6 x 2)

(b) What is stable Dividend policy ? What are its advantages ?

Q 7 (a) Explain the merits and demerits of Various Discounted cash flow Techniques of Capital Budgeting. (Marks 6 x 2)

(b) How is fund flow Analysis different from cash flow Analysis ?

=x0x=