

MMS-II Sem.
FM02
Financial Management

Roll No.

Total No. of Printed Pages: 4

Total No. of Questions : 9

Maximum Marks : 60 marks

Duration (hrs.) : 3 HRS

28.04.2011

1. Answer all the following questions (6*2)

12 mark

(a) ABC ltd has stable earnings from last 5 years and now the Co. is heading towards forward integration and expecting fluctuation in its earnings, it is also expected that in future it may have unstable earnings due to diversification of business line and will require time to again gain the stable earnings and high growth phase.

Based on the above situation, identify the dividend policy for past, present and future of the Company.

(b) In Receivable Management, what does '3/20 net 45' mean? How the operating cycle of working capital works?

(c) As per the net income approach to capital structure a firm can (increase/decrease) its value and (increase/decrease) its overall cost of capital by(increasing/decreasing) the degree of leverage and in the process of capital structure decision, desired debt and equity mix has the effect onand.....

(d) Cash payments to acquire long term assets forms a part ofactivity in the preparation of cash flow statement.

(e) Show with the help of graph, the tradeoff between liberal and tight credit policy to arrive at optimum credit policy in receivable management.

(f) What is the formula for Profitability Index and IRR? What is the accept and reject rule in Profitability index?

2. (a) Alfa Ltd issued Rs. 100 lakhs 12% Debenture of Rs. 100 each redeemable at par after 5 years. Calculate the Cost of debt for the following cases: 4mark

- If debentures are issued at par with no floatation cost
- If debentures are issued at 10% premium with 3% floatation cost.
- If debentures are issued at 5% discount with 2% floatation cost.

- (b) An equity share of the company is currently selling for Rs. 50. The company had paid dividend of Rs. 6 per share at the end of last year. Dividend per share is expected to grow at certain rate, dividend payout ratio is 60% and the company reinvests the retained earnings at the rate of 20%.
Calculate the Growth rate and Cost of equity (K_e). 3 mark
3. (a) Mr. Vinay plans to send his son for higher studies abroad after 10 years. He expects the cost of studies Rs. 100000. How much should he save annually to have a sum of Rs. 100000 at the end of 10 years? If the interest rate is 12%. 3 mark
- (b) A project has a cash outlay of 4000 and generates the cash inflows of Rs. 3000, Rs.1000, Rs. 1000 and Rs. 1000 during next 4 years. Calculate NPV and Payback period @ discount factor 10%. 3 mark
4. Write short notes on any two: 9 mark
- Lock box system in cash management
 - ABC and VED analysis
 - Optimum capital structure
 - Factoring
 - Leasing and Hire purchase
5. What does Gordon model of dividend theory state? Illustrate the Relevant dividend theory in all 3 cases according to Gordon model when 5 mark
- $r > k$
 - $r = k$
 - $r < k$
6. (i) Define financial management and state its objectives.
(ii) What are the factors determining dividend policy of the firm (any 4)? 6 mark
7. (i) Give the classification of working capital on the bases of concept and time. 3 mark
- (ii) A manufacturing company has an expected usage of 100000 units of certain product during the next year. The cost of the order is Rs. 40 and carrying cost is Re. 0.5 per unit for one year. Lead – time on an order is five days. Calculate (i) EOQ (ii) reorder point (assuming 250 days in a year) (iii) Number of orders in a year. 3 mark

8. Prepare Funds Flow Statement **OR** Cash Flow Statement from the following Balance sheet of X ltd. 6 mark

Liabilities	2009 Rs.	2010 Rs.	Assets	2009 Rs.	2010 Rs.
Equity Capital	1,50,000	2,00,000	Goodwill	36,000	20,000
15% Preference share capital	75,000	50,000	Building	80,000	60,000
General Reserve	20,000	35,000	Plant	40,000	1,00,000
P&L a/c	15,000	24,000	Debtor	1,19,000	1,54,000
Creditors	37,500	49,500	Stock	10,000	15,000
			Cash	12,500	9,500
Total	2,97,500	3,58,500	Total	2,97,500	3,58,500

Depreciation charged on Plant was Rs.10, 000 and on Buildings was Rs.20, 000.

9. The Balance sheet of Y Ltd stood as follows as on: 3 mark

Liabilities	31.3.2009 Rs.	31.3.2008 Rs.	Assets	31.3.2009 Rs.	31.3.2008 Rs.
Capital	250	250	Fixed Assets	400	300
Reserves	116	100	Less: Depreciation	(140)	(100)
				260	200
Loans	100	120	Investment	40	30
Creditors and Other current Liabilities	129	25	Stock	120	100
			Debtor	70	50
			Cash/Bank	20	20
			Other current Assets	25	25
			Misc. Expenditure	60	70
Total	595	495	Total	595	495

You are given the following information for the year 2008-09:

- Sales Rs.600
- PBIT Rs.150
- Interest Rs.24
- Provision for tax Rs.60
- Proposed dividend Rs.50

All the figures given above are rupees in Lakhs.

Required: From the above Particulars and Balance sheet, Calculate following Ratios for the year 2008-09:

(a) Stock Turnover ratio, (b) Return on Net worth, (c) Current Ratio