FM02

Roll No. _____

Total No. of Questions : 9

Duration (hrs.) : 3

Total No. of Printed Pages: 4

Maximum Marks : 60

Note:

1. Scientific calculators are not allowed.

2. Answers should be to the point.

Answer the following questions:

1. Objective questions (a to f – 1 mark each and g & h – 2 marks each):

   10 marks

   a) Tradeoff between risk and return in financial decision is to ... ... share value.

   b) When corporation earns exceedingly high income on its capital, it is said to be... ... ... capitalized.

   c) Optimum capital structure... ... ... value of firm and... ... ... cost of capital.

   d) Purchase of fixed asset on a credit of 2 months will improve or decline or will have no change in current ratio, assuming current ratio is 2:1.

   e) Formula of cash operating cycle in days/week is... ... ...

   f) As per Gorden Model, what is the optimum D/P ratio, when r>k and r<k.

g) ……………………………… And …………………………………… are objectives of financial management.

h) Show with the help of the graph matching policy of working capital financing.

2. Case Study   10 marks

Charatlal, the president and majority shareholder, was a superb operating executive. He was an imaginative, aggressive marketing man and an ingenious, creative production man. But he had little patience with financial matters. After examining the most recent balance sheet and income statement, he muttered, "We have enjoyed ten years of steady growth; this year was our most profitable year. Despite this, we are in the worst cash position in our history. Just look those current liabilities in relation to our available cash! This whole picture of the more you make, the poorer you get, just does not make sense. These statements must be cockeyed."

The balance Sheet (in lakh of rupees) of Charat Engineering Ltd. Is given below:

LIABILITIES	MARCH 31 2012	MARCH 31 2011	ASSETS	MARCH 31 2012	MARCH 31 2011
Current liabilities	105	30	Cash	2	10
Long term debt	150	-	Receivables	60	30
Stockholder's equity	207	160	Inventories	100	50
			Fixed assets(net of accumulated depreciation)	300	100
	462	190		462	190

Net income before taxes, Rs 81 lakh. Taxes paid are Rs 27 lakh. Cash dividends paid were Rs 7 lakh. Depreciation was Rs 20 lakh. Fixed assets were purchase for Rs 220 lakh. It was assumed that increase in stockholders' equity does not form the part of increase in share capital.

From the above case study and data given

i) Prepare cash flow statement based on AS – 3,

ii) Write a short memorandum (maximum in 4 to 5 lines) to Mr. Charatlal, explaining why there is such squeeze for cash,

iii) Suggest possible sources (only names) to finance receivables (debtors) and one way to decelerate (slow down) cash payment?

3. Following is the summary of the financial ratios of a company relating to its liquidity position.   4 marks

PARTICULARS	YEAR 1	YEAR 2	YEAR 3
Current Ratio	2:1	2.13:1	2.28:1
Acid Test Ratio	1.2:1	1.1:1	0.9:1
Debtors Turnover	10 times	8 times	7 times
Stock Turnover	6 times	5 times	4 times

   a) The current ratio is increasing, while the acid-test ratio is decreasing. What is the contributing factor for this apparently divergent trend?
   b) From the data given, what does debtors and stock turnover indicate about the company?

4. a) The current market price of V ltd.'s equity share of Rs. 10 each is Rs. 64. For the last year, the company had paid equity dividend of Rs. 8 per share which is expected to grow @ 5% p.a. forever. Calculate the cost of equity (k_e). **2 marks**

   b) A person deposits Rs. 2,00,000 in deposit account at the beginning of 1st year. Determine his account balance at the end of 4th year, if deposit interest rate is 12% p.a.   **2 marks**

   c) A ltd. Issued 12% debentures of Rs. 100 each, redeemable after 5 years. Brokerage 2% and flotation cost 1% of issue price. Corporate tax rate is 30%. Calculate cost of debenture, i) if issued at par ii) if issued at premium @ 3%.

   3 marks

5. What does Walter model of dividend policy state? Illustrate the relevant dividend theory in all 3 cases according to Walter model when   **5 marks**

   i) r > k

   ii) r = k

   iii) r < k

6. a) What is the formula of: **3 marks**

   i) Value of the firm according to MM hypothesis in dividend policy,

   ii) Profitability Index in capital budgeting and its accept-reject rule,

   iii) ARR in capital budgeting

b) A project cost an initial investment of Rs. 40,000 and is expected to generate annual cash inflows of Rs. 16000, Rs. 17000, Rs. 15000, and Rs. 16000 for 4 years. Calculate IRR. **4 marks**

7. i) Calculate re-order level, minimum level and maximum level, from the following data: **3 marks**

   normal usage – 100 unit per week, lead time – 4 to 6 weeks, minimum usage – 50 units per week, maximum usage – 150 per week, reorder quantity – 600 units.

   ii) Calculate EOQ and total variable cost from the following data: **3 marks**

   annual demand – 500 units, carrying cost 0.5 paisa per unit, cost per order – Rs. 5 per unit.

8. Write a short note on (any 3): **6 marks**

   i) Hire purchase and factoring

   ii) ABC analysis

   iii) Optimum capital structure

   iv) 5C's in receivable management

   v) Liberal Vs Tight credit policy

   vi) Negative working capital maximizes ROI

9. What are the factors determining dividend policy (any four)? What is the dividend policy followed in case of paying fixed dividend per share irrespective of the level of earning year after year?

   OR **5 marks**

   What are the factors determining working capital requirement (any four)? What is the need of working capital?