PG – 537

II Semester M.B.A. (Day and Eve.) Examination, Nov./Dec. 2023
(CBCS) (2021-22 Onwards)
MANAGEMENT
2.5 : Financial Management

Time : 3 Hours Max. Marks : 70

SECTION – A

Answer **any five** from the following questions, **each** question carries **5** marks. **(5×5=25)**

1. What is 'profit maximisation' ? Explain the limitations of profit maximisation objective of Financial Management.

2. What is 'point of indifference' ? How does it help in capital structure decisions ?

3. What is working capital policy ? Explain different types of working capital policies.

4. ABC Ltd. is expecting an annual earnings before the payment of interest and tax of Rs. 12,00,000. The company in its capital structure has Rs. 48,00,000 in 10% debentures. The cost of equity is 12.5%. You are required to calculate the value of the firm according to 'Net Income' approach. Also compute the overall cost of capital.

5. A firm has a sales of Rs. 20,00,000, variable cost of Rs. 14,00,000, Fixed cost of Rs. 4,00,000 and 10% debt of Rs. 10,00,000. What are the operating and financial leverages ? If the firm wants to double up its earnings before interest and tax, how much of rise in sales would be needed in a percentage basis ?

6. a) ABC company's equity share is quoted in the market at Rs. 25 per share currently. The company pays a dividend of Rs. 2 per share and the investor's market expects a growth rate of 6% per year. Calculate cost of equity.

   b) A company issues a new 15% debentures of Rs. 1,000 Face value to be redeemed after 10 years. The debentures are expected to sold at 5% discount. It will also involve floatation cost of 5%. Tax rate is 30%. What would be the cost of debt ?

7. X company earns Rs. 5 per share, is capitalized at the rate of 10% and it has a rate of return on investment of 18%. Calculate the price per share according to Walter's Model, if dividend payout ratio is 25%.

P.T.O.

SECTION – B

Answer **any three** questions, **each** question carries **10** marks. **(3×10=30)**

8. What is 'capital budgeting' ? Explain the different techniques of capital budgeting, clearly highlighting the acceptance criteria under each technique.

9. Yashas Ltd. has furnished the following information :

   a) Earnings per share – Rs. 4

   b) Dividend payout ratio – 25%

   c) Market price per share – Rs. 40

   d) Rate of tax – 30%

   e) Growth rate of dividend – 8%

   The company wants to raise additional capital of Rs. 10,00,000 including a debt of Rs. 4,00,000. The cost of debt (before tax) is 10% upto 2 lakhs and 15% beyond that.

   Compute after-tax cost of equity and debt, and the weighted average cost of capital.

10. A proforma cost sheet of a company provides the following particulars.

    Elements of cost :

    Material – 40%

    Direct Labour – 20%

    Overheads – 20%.

    The following further particulars are available :

    a) It is proposed to maintain a level of activity of 200000 units.

    b) Selling price is Rs. 24 per unit.

    c) Raw materials are expected to remain in stores for an average period of one month.

    d) Materials will be in process on average half a month.

    e) Finished goods are required to be in stock for an average period of one month.

    f) Credit allowed to debtors is 2 months.

    g) Credit allowed by suppliers is one month.

    You are required to prepare a statement of working capital requirements, if desired cash balance is Rs. 2,00,000.

11. Firms X and Y are identical except that firm X is not levered while firm Y is levered. The following data relate to them.

Particulars	Firm – X	Firm – Y
Assets (Rs.)	50,00,000	50,00,000
Debt Capital (9% interest) (Rs.)	0	25,00,000
Equity Share Capital (Rs.)	50,00,000	25,00,000
Number of Shares	5,00,000	2,50,000
Rate of Return on Assets	20%	20%

Calculate EPS for both the firms, assuming tax rate is 50%. Will it be advantageous for firm Y to raise the level of debt to 75% ?

SECTION – C **(1×15=15)**

12. **Compulsory** question. Case study.

X Ltd. has under consideration to invest in project X. The details are as under :

Particulars	Project X
Investment in Machinery	Rs. 15,00,000
Working Capital	Rs. 5,00,000
Life of Machinery	5 years
Scrap value of Machinery	10%
Tax rate	30%

Year	1	2	3	4	5
PBIT (Rs. in Lakhs)	15	9	15	10	4

Advise the company using following techniques :

a) Pay back period
b) Average rate of return
c) Discounted pay back period
d) Net present value
e) Profitability index

Cost of capital 10%.

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