MBA 06 R

M.B.A. DEGREE EXAMINATION, JUNE 2013.

Second Semester

General, Finance, Marketing, HRM, IB, RM, Tourism

Paper VI — FINANCIAL MANAGEMENT

(2012-13 Batch onwards)

Time : Three hours | Maximum : 100 marks

SECTION A — (5 × 6 = 30 marks)

Answer any FIVE questions.

1. "Financial Management is more than procurement of funds" – Comment.

2. Explain the Walter's dividend model.

3. A company has sales of Rs. 1,00,000. The variable costs are 40% of the amounts to Rs 30,000. The amount of interest on long – term debt is Rs. 10,000.

   You are required to calculate the composite leverage and illustrate its impact if sales increase by 5%.

4. The shares of a steel company are quoted at Rs. 42 per share. The firm had paid a dividend of Rs. 4 per share last year. The expected growth in dividend is 5% p.a

   (a) Determine the cost of equity capital of company

   (b) Determine the market price of the equity share if the anticipated growth of the firm

      (i) Rises to 8% and

      (ii) Falls to 3%.

5. Explain in brief the various factors influencing working capital.

6. From the following estimates, calculate the average amount of working capital required.

   Average amount locked up in stock :

   Stock of finished goods and work-in-progress Rs. 10,000 p.a

   Stock of stores, materials etc. Rs. 8,000 p.a

   Average credit given :

   Local sales 2 weeks credit Rs. 1, 04,000 p.a

   Outside state 6 weeks credit Rs. 3, 12,000 p.a

   Time available for payments :

   For purchases 4 weeks Rs. 78,000 p.a

   For wages 2 weeks Rs. 2, 60,000 p.a

   Add 10 % to allow for contingencies.

The average effective collection period differs from the credit period as all debtors do not strictly adhere to the condition stipulated. The company achieves a contribution of 40% on sales and the firm requires a 20% p.a return on investment.

		Existing policy	Option I	Option II
(a)	Credit period (days)	30	14	60
(b)	Sales (Rs. Lakhs)	10.00	9.60	12.00
(c)	Bad debts (% of sales)	5	3.33	6
(d)	Cost of credit administration (Rs. Lakh)	0.20	0.12	0.25
(e)	Average effective collection Period (days)	45	21	75

You are required to suggest.

(i) Which credit period is more suitable to the company?

(ii) Do you any further suggestion to make to the management in the context of your finding?

---

7. Is the MM thesis realistic with respect to capital structure and the value of a firm? If not, what are its main weaknesses?

8. "The objectives of wealth maximisation are superior to profit maximisation"– Do you agree.

SECTION B — (5 × 10 = 50 marks)

Answer any FIVE questions.

9. The following information is available in respect of the rate of return on investments [r], the capitalization rate [Ke] and earnings per share [E] of Hypothetical Ltd.

(a) r = 12%

(b) r =11% and

(c) r = 8%

Ke = 11% and E = Rs. 20.

Determine the value of its shares under Gordon model, assuming the following :

	D/P Ratio (l–b)	Retention Ratio
A	10%	90%
B	40%	60%
C	70%	30%

10. Explain the ARR, NPV, IRR in capital budgeting.

11. What is Financial Modelling? What are the uses of financial model?

12. Explain different methods of Evaluating Capital Expenditure Proposals.

13. Define Operating and Financial average. How can you measure the degree of operating and financial average?

14. A choice is to be made between two competing proposals which require an equal investment of Rs. 50,000 and are expected to generate net cash flows as under :

	Project I	Project II
	Rs.	Rs.
End of year 1	25,000	10,000
End of year 2	15,000	12,000
End of year 3	1 0,000	1 8,000
End of year 4	NIL	25,000
End of year 5	12,000	8,000
End of year 6	6,000	4,000

The cost of the capital of the company is 10 per cent. The following are the Present Value Factors at 10% per annum.

Years	Present Value Factor at 10% p.a.
1	0.909
2	0.826
3	0.751
4	0.683
5	0.621
6	0.564

Which project proposal should be chosen and why? Evaluate the project proposal under :

(a) Payback period

(b) Discounted cash flow method.

15. Explain briefly the Modigliani and Miller approach to capital structure.

16. Cost of preference capital is generally lower than the cost of Equity. State the reasons.

SECTION C — (1 × 20 = 20 marks)

Compulsory.

17. Case study :

Agro products Ltd, Pondicherry is considering the various credit policy alternatives.