

Seat No. : _____

XW-102

April-2013

Five Year M.B.A. Integrated (K.S.)

S.Y. MBA

Financial Management

Time : 3 Hours]

[Max. Marks : 100

1. Answer the following questions : **20**

- (1) What is meant by Financial Management ? Explain significant decisions of Financial Management.
- (2) A person is depositing ₹ 10,000 at the beginning of every month in his bank account. If the rate of interest is 12% p.a., then what would be the aggregate amount that he would receive at the end of 72 months ?

OR

Answer the following questions :

- (1) Wealth maximization is superior goal of financial management than maximization of profit. Do you agree with this statement ? Explain.
 - (2) At the time of his retirement, Ram is given a choice between two alternatives :
(a) An annual pension of ₹ 1,20,000 as long as he lives, and (b) a lump sum amount of ₹ 10,00,000. If Ram expects to live for 20 years and the interest rate is expected to be 10 percent throughout, which option appears more attractive ?
2. (a) Explain factors affecting requirement of working capital in organization after giving meaning of working capital. **10**
- (b) Explain in detail concept and use of 'Operating Cycle'. **10**

OR

From the following information of N Ltd. for the coming year, you are required to estimate the working capital needed to finance a level of activity of 2,08,000 units of production after adding 5% margin for contingency. **20**

	Cost per unit (₹)	
Raw Materials	320	
Direct Labour	120	
Overheads (including depreciation of ₹ 20)	<u>260</u>	
	Total cost	700
	Profit	<u>100</u>
	Selling price	<u>800</u>

Additional information :

- (1) Average raw material in stock : one month
- (2) Average material in process : half a month
- (3) Average finished goods in stock : six weeks
- (4) Credit allowed by suppliers : one month

- (5) Credit allowed to customers : eight weeks
 (6) Time lag in payment of wages : one and half weeks

20% sales are on cash basis. Cash balance is expected to be ₹ 1,50,000.

You may assume that production is carried on evenly throughout the year and wages and overhead expenses accrue similarly.

3. (a) A company has the following capital structure at 31-3-2013. 15

Particulars	Amount (₹)	Specific cost (%)
Equity capital	50,00,000	?
Preference capital	40,00,000	8%
Debentures	60,00,000	14%

The company's tax rate is 50%. It is expected to pay a dividend of ₹ 15 per share in the current year and this dividend is expected to grow at the rate of 8% p.a. forever. The company's equity share is currently selling at ₹ 150 per share. Calculate weighted average cost of capital.

- (b) Explain the significance of cost of capital. 5

4. F Ltd. has total capitalization of ₹ 100 lakhs consisting entirely of equity shares of ₹ 50 each. It wishes to raise another ₹ 50 lakhs for expansion through one of its two possible financing plans : (a) all equity shares of ₹ 50 each (b) all debentures carrying 9% interest. Present level of EBIT is ₹ 14 lakhs and tax rate is 50%. Calculate EBIT level at which EPS would remain same irrespective of financing plan. Also advise the company about the financing plan. 20

OR

- (a) Discuss the various factors affecting capital structure decision. 10
 (b) Explain meaning and types of leverages with example. 10

5. N.I. Ltd. decided to undertake a project for placing a new product in the market. It was estimated that the project would cost ₹ 1 crore in plant and machinery in addition to working capital of ₹ 25 lakhs. The scrap value of plant and machinery at the end of 5 years is estimated at ₹ 12.50 lakhs. After providing for depreciation of straight line basis, profits after tax were estimated as follows :

Year	PAT (₹)
1	10.00 lakhs
2	25.00 lakhs
3	27.50 lakhs
4	15.00 lakhs
5	10.00 lakhs

You are required to ascertain the NPV of the project assuming 12% cost of capital. Also calculate payback period. 20

OR

Discuss various methods of evaluating capital budgeting decisions with their relative merits and demerits in detail.