Seat No. : _______________

AF-130

April-2016

S.Y. MBA (Integrated)

FUNDAMENTALS OF FINANCIAL MANAGEMENT

Time : 3 Hours] **[Max. Marks : 100**

1. (a) The finance manager's primary task is to plan for the acquisition and use of funds so as to maximize the value of the firm. "Do you agree? Comment ? **10**

   (b) Explain the time value of money in financing and investment decision and find the future value of annuity in following case :

   Fifteen annual payments of ₹ 5,000 are made into a deposit account that pays 14% interest per year. **10**

2. (a) What is the significance of Working capital for a manufacturing firm ? What will be the consequences of shortage and excess of working capital ? **10**

   (b) Calculate the operating cycle of a company which gives the following details : **10**

Raw Materials consumption per Annum	₹ 8,42,000
Annual cost of Production	₹ 14,25,000
Annual Cost of Sales	₹ 15,30,000
Annual Sales	₹ 19,50,000

   Average Value of Current Assets :

Raw materials	₹ 1,24,000
WIP	₹ 72,000
Finished Goods	₹ 1,22,000
Debtors	₹ 2,60,000

   The company gets 30 days credit from its suppliers. All sales made by the firm are on credit only. You may take one year is equal to 365 days.

3. (a) Super Steel Electronics plans to use equity and debt in the following proportions : **10**

Equity : 50

Debt : 50

Based on its discussions with its Bank Managers and Lenders Super Steel Electronics estimates the cost of its sources of finance for various levels of usage as follows :

Source of Finance (₹ in Millions)	**Range of New Financing**	**Cost**
Equity	0-25	15%
	Above 25	18%
Debt	0-40	12%
	Above	16%

Required

(1) Determination of Breaking Point and Resulting range of Total new financing for Super Steel Electronics.

(2) WACC for various ranges of total new financing for Super Steel Electronics.

(b) What is cost of capital ? Explain significance of cost of capital in details. **10**

4. Answer the followings (Any **two**) :

(a) A company's present capital structure consists of 2,00,000 shares of equity stocks. It requires ₹ 10,000,000 of external financing for which it is considering two alternatives as follows: **10**

Alternative A : Issues of 5,00,000 equity shares of ₹ 10 par at ₹ 20 each

Alternative B : Issue 1,00,000 equity shares of ₹ 10 par at ₹ 20 each and ₹ 80,00,000 of debentures carrying 14 percent interest rate.

The company's tax rate is 40 percent.

(1) What is EPS for both alternatives ?

(2) What is the EPS-EBIT indifference point for alternative A and alternative B ?

(b) For X Ltd. the following data is available : **10**

(₹ in lakhs)

EBIT	₹ 200
Contribution	₹ 400
Interest	₹ 100

If the company's sales are expected to decline by 5 percent, determine the percentage change in EPS.

(c) What is capital structure ? Explain determination of capital structure in details. **10**

5. (a) Kapoor & Sons Ltd. are thinking of investing in a project costing ₹ 20 lakh. The life of the project is five years and the estimated salvage value of the project is zero. Straight line method of charging depreciation is followed. The tax rate is 50%. The expected cash flows before tax are as follows : **14**

Year	1	2	3	4	5
Estimated cash flows before tax & depreciation	₹ 4,00,000	₹ 6,00,000	₹ 8,00,000	₹ 8,00,000	₹ 10,00,000

You are required to determine :

(a) Pay-back period

(b) Average rate of return

(c) Internal rate of return

(d) Net Present Value

(e) Benefit cost Ratio

Calculate the above with a cost of capital @ 10%.

(b) What is capital budgeting? Explain capital budgeting process. **6**