2/73 **0305E307** Candidate's Seat No :________

P.G.D.M.A. Examination

Paper-II

Finance Management

Time : 3 Hours] **May-2017** **[Max. Marks : 100**

Note: Q 1 and Q5 are compulsory

Q1(A) What are the different sources of long term and short sources of finance explain in brief. (10)
Q1(B) What is an ordinary share? How does it differ from a preference share anddebenture? Explain its most important features. (10 marks)

Q2(A) Briefly explain factors that determine the working capital needs of a firm.(10 marks)

Q2(B) How would you determine the optimum level of current assets? Illustrate your answer (10 marks)

OR

Q2(A) You are supplied with the following information in respect of XYZ Ltd for the ensuing year:(10 marks)

Production of the year, 69,000 units
Finished goods in store, 3 months
Raw material in store, 2 months' consumption
Production process, 1 month
Credit allowed by creditors, 2 months
Credit given to debtors, 3 months
Selling price per unit, Rs 50
Raw material, 50 per cent of selling price
Direct wages, 10 per cent of selling price
Manufacturing and administrative overheads, 16 per cent of selling price
Selling overheads, 4 per cent of selling price

There is a regular production and sales cycle and wages overheads accrue evenly. Wages are paid in the next month of accrual. Material is introduced in the beginning of the production cycle. You are required to ascertain its working capital requirement.

Q2(B) The present credit terms of Globus Corporation are 2/10, net 40. It sales are Rs.650 million, its average collection period is 30 days, its variable costs to sales ratio, V, is 0.75, and its cost of capital is 10 percent. The proportion of sales on which customers currently take discount, is 0.3. Globus is considering relaxing its credit terms to 3/10, net 40. Such a relaxation is expected to increase sales by Rs.30 million, increase the proportion of discount sales to 0.5, and reduce the ACP to 20 days. Globus's tax rate is 35 percent. What will be the effect of liberalising the cash discount on residual income? (10)

Q3 (A)The equity capital is cost free.' Do you agree? Give reasons.(10 marks)
Q3(B) A company's shares are actively traded in the market.The current market price of the shares of accompany is INR 1050 per share. The company pays dividend of INR 30 every year. The profits of the company are expected to grow at the rate is 6 percent per annum and

(P.T.O)

the company maintains 100 percent payout ratio. Determine the cost of equity for the company. What should be current price of the share of the growth rate of company is (a) 8% (b) 12% (c) 3% (10 marks)

OR

Q3(A) Explain the nature of the factors which influence the dividend policy of a firm.(10)

Q3(B) The stocks of firms *M* and *N* are considered to be equally risky. Investors expect the share of firm *M* – the firm which does not plan to pay dividend -- to be worthRs 180 next year. From the share of firm *N*, too, investors expect a pay off of Rs 180 – Rs 20 by way of dividend and Rs 160 by way of share price a year from now. Dividends are taxed at 20 percent and capital gains at 10 percent. What willbe the current price of the shares of *M* and *N*, if each of them offers an expectedpost-tax rate of 20 percent? Assume that the radical position applies(10)

Q4(A) Explain the concept of financial leverage. Show the impact of financial leverage on the earning per share.(10 Marks)

Q4(B) (i) Glendale Company requires Rs.50 crore of external financing for which it is considering two alternatives:

Alternative A : Issue of 0.4 crore shares at Rs.125 each.

Alternative B : Issue of Rs.50 crore of debentures carrying 10 percent interest rate. What is the EPS-PBIT indifference point? (5 marks)

(ii)calculate DFL, DOL, DTL (5 marks)

Equity earning	Rs 1500000
Quantity produced	15000 units
Variable cost per unit	Rs 200
Selling per price unit	Rs 500
No of Equity shares	600000
Total fixed cost	900000
Interest	100000
Preference dividend	600000
Tax	40%

OR

Q4 What do you mean by capital structure? Explain the determinants of capital structure. Explain the indifference point with an example (20 marks)

Q5 (A) Why should you study international finance? What are the factors affecting exchange rate discuss in brief .(10)

Q5(B) What do you understand by transaction exposure and translation exposure? Differentiate between forward and future contract(10 marks)