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2504N060

Candidate's Seat No :________

P. G. D. M. A. C. Examination

Paper-1

Financial Management

April 2019

Time : 2-30 Hours] **[Max. Marks : 70**

Note: Q 1 and Q5 are Compulsory

Q1(A) The Balance sheet and Profit & Loss accounts are given below for Raghav corporation. Prepare Common size and Common base financial statement (7marks)

Balance sheet Rs.Milion)	**2018**	**2019**
Shareholders' funds	256	262
Loan funds	156	212
Total	**412**	**474**
Fixed assets	322	330
Investment	15	15
Net current asset	75	129
Total	**412**	**474**

Profit & loss a/c	**2018**	**2019**
Net sales	673	701
Cost of goods sold	475	552
Gross Profit	148	149
PBIT	105	89
Interest	22	21
PBT	83	68
PAT	**42**	**34**

Q1(B) Complete the balance sheet and sales data fill in the blank (7 marks)

Debt/equity ratio	0.8
Acid-test ratio =	1.1
Total assets turnover ratio	2
Days' sales outstanding in	
Accounts receivable	30 days
Gross profit margin	30%
Inventory turnover ratio	6

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Balance sheet

equity capital	80000	Plant and mach	?
retained earning	50000	Inventory	?
short term borrowings	?	Account Receivables	?
		Cash	?

Sales ....

cost of goods sold ....

Q2(A) Sara Limited has to retire Rs.30 million of debentures each at the end of 7, 8, 9 and 10 years from now. How much should the firm deposit in a sinking fund account annually for 5 years, in order to meet the debenture retirement need? The net interest rate earned is 12 percent. **(10 marks)**

Q2(B) Describe the procedure developed by Markowitz for choosing the optimal portfolio of risky assets.(4)

OR

Q2 (A) A portfolio consists of 4 securities, 1, 2, 3, and 4. The proportions of these securities are: w_1=0.3, w_2=0.2, w_3=0.2, and w_4=0.3. The standard deviations of returns on these securities (in percentage terms) are : σ_1=5, σ_2=6, σ_3=12, and σ_4=8. The correlation coefficients among security returns are: ρ_{12}=0.2, ρ_{13}=0.6, ρ_{14}=0.3, ρ_{23}=0.4, ρ_{24}=0.6, and ρ_{34}=0.5. What is the standard deviation of portfolio return? (4)

Q2 (B) The returns of two assets under four possible states of nature are given below :

State of nature	*Probability*	*Return on asset 1*	*Return on asset 2*
1	0.40	-6%	12%
2	0.10	18%	14%
3	0.20	20%	16%
4	0.30	25%	20%

a. What is the standard deviation of the return on asset 1 and on asset 2?
b. What is the covariance between the returns on assets 1 and 2?
c. What is the coefficient of correlation between the returns on assets 1 and 2? **(10)**

Q3 (A) The equity capital is cost free.' Do you agree? Give reasons. **(4 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 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

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Q3(A) You are considering investing in one of the following bonds: *Coupon rate Maturity Price/Rs.1000 par value*

Bond A 12% 7 yrs Rs. 930
Bond B 8 % 5 yrs Rs. 860

Your income tax rate is 33 percent and your capital gains tax is effectively 10 percent. Capital gains taxes are paid at the time of maturity on the difference between the purchase price and par value. What is your post-tax yield to maturity from these bonds? **(4)**

Q3(B) The rate of return on the stock of Nilam Electronics and on the market portfolio for 6 periods has been as follows :

Period	*Return on the stock of Nilam Electronics*	*Return on the market portfolio*
1	18%	15%
2	10%	12%
3	- 5%	5%
4	20%	14%
5	9%	-2%
6	18%	16%

(i)What is the beta of the stock of Nilam Electronics?
(ii) Establish the characteristic line for the stock of Nilam Electronics (**10**)

Q4 (A) Explain the concept of Time Value of Money. Discuss its importance in Finance Management and decisions.(**4 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%

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OR

Q4 (A)What do understand by fixed income securities? Describe in brief its features and risks involved in it **(10)**

Q4(B) Explain the concept of financial leverage. Show the impact of financial leverage on the earning per share.(**4 Marks)**

Q5 (A) What are the different sources of long term and short sources of finance explain in brief. **(7)**
Q 5(B) What is an ordinary share? How does it differ from a preference share and debenture? Explain its most important features. **(7 marks)**

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Candidate's Seat No :________

P. G. D. M. A. C. Examination

Paper-2

Financial Management

April 2019

Time : 2-30 Hours] **[Max. Marks : 70**

Note: Q 1 and Q5 have no option

Q1 (A) Discuss the various Factors that determine working capital needs of a firm.(7 mark)

Q1 (B) What is open and close ended mutual fund explain ETF and how is it structured?(7)

Q2(A) What is capital budgeting? Discuss different capital budgeting techniques to assess the feasibility of the projects? (7)

Q2(B) What is current asset? How is optimum level of current asset is achieved. Illustrate your answer (10 marks)

OR

Q2 (A) You are supplied with the following information in respect of Aydin 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 Suhana ltd 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. Suhana 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. Suhana's's tax rate is 35 percent. What will be the effect of liberalising the cash discount on residual income? (4)

Q3 (A) Kajal Stores is trying to determine the economic order quantity for a certain type of machine tool. The firm sells 60,000 numbers of this machine tool annually at a price of Rs.80 per piece. The purchase price per machine tool to the firm is, however, Rs.65. The cost of carrying a machine tool is Rs.10 per year and the cost of placing an order is Rs.80.

(a) What is the total cost associated with placing one, two, five, and ten orders

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per year? (b) What is the economic order quantity? (7 marks)

Q3(B) The management of Janata Company, subscribing to the net operating income approach, believes that its cost of debt and overall cost of capital will remain at 7 percent and 14 percent, respectively. If the equity shareholders of the firm demand a return of 25 percent, what should be the proportion of debt and equity in the firm's capital structure? Assume that there are no taxes. (4 marks)

OR

Q3(A) Discuss the various theories of dividend policy for a company.**(4)**

Q3(B) The present credit terms of Indus Industries are 3/15, net 30. Its sales are Rs.470 million, its average collection period is 45 days, its variable costs to sales ratio, V, is 0.85, and its cost of capital is 12 percent. The proportion of sales on which customers currently take discount, is 0.4. Indus is considering relaxing its credit terms to 5/15, net 30. Such a relaxation is expected to increase sales by Rs.20 million, increase the proportion of discount sales to 0.6, and reduce the ACP to 40 days. Indus's tax rate is 30 percent. What will be the effect of liberalising the cash discount on residual income? (10)

Q4 (Medipharm, a pharmaceutical company, is considering the manufacture of a new antibiotic preparation, M-cin, for which the following information has been gathered.

M-cin is expected to have a product life cycle of five years and thereafter it would be withdrawn from the market. The sales from this preparation are expected to be as follows:

Year	*Sales (Rs in million)*
1	50
2	100
3	150
4	100
5	50

The capital equipment required for manufacturing M-cin will cost Rs.80 million and it will be depreciated at the rate of 25 percent per year as per the WDV method for tax purposes. The expected net salvage value of the capital equipment after 5 years is Rs.20 million.

- The net working capital requirement for the project is expected to be 25 percent of sales. The net working capital will be adjusted at the beginning of the year in relation to the expected sales for the year. For example, the net working capital at the beginning of year 1 (i.e at the end year 0) will be Rs.12.5 million, that is 25 percent of the expected revenue of Rs.50.0 million for year 1.
- The accountant of the firm has provided the following cost estimates for M-cin : Raw material cost : 40 percent of sales Variable labour cost : 10 percent of sales Fixed annual operating: Rs.4 million and maintenance cost Overhead allocation : 10 percent of sales (excluding depreciation maintenance, and interest) While the project is charged an overhead allocation , it is not likely to have any effect on overhead expenses as such.
- The manufacture of M-cin would use some of the common facilities of the firm. The use of these facilities will necessitate reducing the production of other pharmaceutical preparations of the firm. This will mean a reduction of Rs.10 million of contribution margin from those preparations.
- The tax rate applicable for this project is 30 percent.

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Estimate the post-tax incremental cash flows of the project viewed from the point of all investors(which is also called the explicit cost funds point of view).**(14)**

OR

Q4 What do you mean by capital structure? Explain the determinants of capital structure. Explain the indifference point with an example (14 marks)

Q5 (A) International finance is the need of time in modern economy. Discuss 10)

Q5(B) What do you understand by transaction exposure and translation exposure? Differentiate between forward and future contract(4 marks)

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