Seat No. : _______________

LC-111

April-2014

Second Year MBA (Sem. – IV) (Integrated)

Financial Management

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

1. (A) Write a note on objectives of Financial Management. **7**

   (B) Which are the roles of a good Financial Manager ? **7**

   (C) Mr. Dhyan deposits ₹ 700 at the end of each year for 8 years at 9% interest rate per annum. Calculate his money value at the end of 8 years. **6**

2. (A) Discuss Internal Rate of Return method of Capital Budgeting with its advantages and disadvantages. **8**

   OR

   Discuss Payback period method of Capital Budgeting with its advantages and disadvantages.

   (B) Rashi Ltd. have two different investment alternatives A and B. **12**

	Year	Project A ₹	Project B ₹
Cost of Project		10,000	20,000
Estimated cash flow	1	4,000	9,000
	2	4,200	8,000
	3	4,500	10,000

   (1) Suggest as to which project they should select on the basis of NRV Method considering discount factor at 12%.

   (2) Find IRR for both the projects.

3. (A) Ripal Ltd. wants to analyse their working capital for which the following information is available about the projections for the current year. **12**

Particulars	Cost Per Unit (₹)
Raw material	35
Direct labour	20
Overhead	25
Total cost	80
Profit	20
Sales	100

Other Information :

- Number of units : 1,00,000
- Raw material in stock : average 2 weeks
- Work-in progress (completion stage : Raw material 100%, Labour and overhead 50%) on an average a month.
- Finished goods in stock : on an average, two months.
- Credit allowed by suppliers is two months
- Credit allowed to debtors is 1.5 month.
- Time lag in payment of wages is 2 weeks.
- Time lag in payment of overhead is 1 month.
- Cash in hand and at bank is desired to be maintained at ₹ 1,00,000.
- 50% Sales and 60% Purchase is on cash basis.

Assume that production is carried on evenly throughout the year. For the calculation purpose (4 weeks = 1 month, A year = 52 weeks = 360 days)

(B) Mention different types of working capital and explain each of them. **8**

4. (A) A company has 10% perpetual debt of ₹ 10,000. The tax rate is 35%. Determine the cost of capital (before tax as well as after tax) assuming the debt is issued as (a) par (b) 10% discount (c) 10% premium. **6**

(B) A Ten year, 8%, ₹ 100 par bond sold at ₹ 95 less 4% underwriting commission. Assuming that a firm pays tax at 50% rate compute the after tax cost of capital by using short cut method. **4**

(C) A 10 year ₹ 100 debentures of Tata Ltd. can be sold for a net price of ₹ 97.7. The rate of interest is 14% per year. Bond will be redeemed at part on maturity. The firm's tax rate is 30%. Compute the after tax cost of the debenture by trial and error method. **10**

OR

Surprise Company Ltd. issued ₹ 1,000 face value preference stock which carries 12% dividend and is redeemable after 12 years at par. The net amount realized per preference share is ₹ 95. Find out cost of capital by trial and error method.

5. (A) The Financial Manager of XYZ Ltd. has formulated various financial plans to finance ₹ 60,00,000 required to implement various capital budgeting projects. **7**

You are required to determine the indifference point for each financial plan assuming 35% corporate tax rate and the face value of equity shares as ₹ 100.

(i) Either equity capital of ₹ 60,00,000 or 13% preference shares of ₹ 20,00,000 and ₹ 40,00,000 equity capital.

(ii) Either equity capital of ₹ 60,00,000 or 13% preference capital of ₹ 20,00,000 (subject to dividend tax of 10%), ₹ 20,00,000 10% debentures and ₹ 20,00,000 equity capital.

(B) Explain the graphical approach of EBIT-EPS analysis in detail. **7**

(C) A firm sells its products for ₹ 100 per unit, has variable operating cost of ₹ 60 per unit and fixed operating cost of ₹ 10,000 per year. Its current level of sales is 150 units. Determine the degree of operating leverage. What will happen to EBIT if sales change to (a) rise to 175 units and (b) decrease to 125 units ? **6**