

AF-142

April-2018

S.Y. M.B.A. Integrated, Sem.-IV

Fundamentals of Financial Management

Time : 3 Hours]

[Max. Marks : 100

1. (A) Write any **two** from the following. **10**
- (1) What amount will be, if invested ₹ 20,000 for 3 years at 12% rate of interest per annum ? If
 - (a) Compounding is done annually
 - (b) Compounding is done semi-annually
 - (c) Compounding is done quarterly.
 - (2) Suppose you deposit ₹ 2,000 annually in a bank for 5 years and your deposit earns an interest of 10 %. What will be the value of this series of deposits at the end of 5 years ?
 - (3) Mr. X plans to invest ₹ 20,000 today for a period of 4 years. If the annual rate of interest is 8%, what amount he is likely to receive at the end of each year for 4 years ?
- (B) What is Financial Management ? Explain the scope of financial management. **10**
2. A company has a following capital structure :
- | | |
|-------------------------------------|-------------|
| 10% debentures of ₹ 100 each | ₹ 18,00,000 |
| 12% preference shares of ₹ 100 each | ₹ 5,00,000 |
| Equity shares of ₹ 10 each | ₹ 20,00,000 |
- Other information:**
- (1) Market price of debenture is ₹ 105
 - (2) Market price of preference share is ₹ 115
 - (3) Market value of equity share is ₹ 20
- Anticipated external financing opportunities are :**
- (1) 10% debentures of ₹ 100, payable at par after 10 years, 4% floatation costs, sales price is ₹ 100.
 - (2) 12% preference shares of ₹ 100, redeemable at par after 12 years, 4% floatation costs, sales price ₹ 100.
 - (3) Equity shares, 3% floatation costs and sale price is ₹ 20.

- (4) The dividend expected on the equity share at the end of the year is ₹ 2 per share, the anticipated growth rate in dividend is 6% and the company has the practice of paying all its earnings in the form of dividend.

- (5) The tax rate is 50%. 20

From the above information, calculate the WACC based on following :

- (i) Market Value weights
(ii) Book Value weights.

OR

- (A) Attempt the following.

10 years debentures of a firm can be sold at a rate ₹ 95. The face value of debenture is ₹ 100 and the coupon rate of interest is 8%. If tax rate is assumed to be 50%, calculate the cost of debt after tax. 5

- (B) A company issue 10% preference share capital of ₹ 100 each at a discount rate of 5%. The cost of share issue amounted to ₹ 5,000. The number of share is 1,000. These shares are to be redeemed at par after 10 years. Find the cost of preference capital. 5

- (C) Write a detail note on various concepts of cost of capital. 10

3. (A) An analytical information of X Ltd. is given below :

It is based on a sales level of 50,000 units.

Sales ₹ 12,00,000, Fixed cost ₹ 3,60,000, Variable cost ₹ 7,00,000, 10% debentures of ₹ 6,00,000 and the tax rate is 50%.

Calculate the degree of

- (i) Financial leverage,
(ii) Operating leverage and
(iii) Combined leverage from above data. 5

- (B) The financial manager of the Shine Ltd. expects that earnings before interest and tax in the current year would amount to ₹ 10,00,000. The firm has 5% bonds aggregating to ₹ 40,00,000, while 10% preference shares amount to ₹ 20,00,000. What would be the earning per share? Assuming the EBIT being :

(i) ₹ 8,00,000 and (ii) ₹ 15,00,000. How would the EPS be affected ? The firm can be assumed to be in 50% tax bracket. The number of outstanding ordinary share is 1,00,000. 10

- (C) What is Capital Structure ? Explain the concept in brief. 5

4. (A) Elaborate different sources of working capital financing.

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OR

XYZ Ltd. has obtained the following data concerning the average working capital cycle for other companies in the same industry :

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Raw Material Stock Turnover	20 Days
Credit received	–40 Days
Work-in-progress Turnover	15 Days
Finished Goods Stock Turnover	40 Days
Debtor's collection period	60 Days
Total	95 Days

Using the following data, calculate the current working capital cycle for XYZ Ltd. and briefly comment on it.

	(₹ In '000)
Sales	3,000
Cost of production	2,100
Purchases	600
Average raw material stock	80
Average work-in-progress	82
Average finished goods stock	180
Average creditors	90
Average debtors	350

- (B) Calculate the amount of working capital requirement for SF Ltd. from the following information :

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	₹ (Per unit)
Raw material	160
Direct labour	60
Overheads	120
Total cost	340
Profit	60
Selling price	400

Raw materials are held in stock on an average for one month. Materials are in process on an average for half-a-month. Finished goods are in stock on an average for one month.

Credit allowed by suppliers is one month and credit allowed to debtors is two months. Time lag in payment of wages is 1.5 weeks. Time lag in payment of overhead expenses is one month. One fourth of the sales are made on cash basis.

Cash in hand and at the bank is expected to be 50,000 and expected level of production amounts to 1,04,000 units for a year of 52 weeks.

You may assume that production is carried on evenly throughout the year and time period of four weeks is equivalent to a month.

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5. (A) Write a note on any **one** from the following : **5**
- (i) Profitability Index method of capital budgeting.
 - (ii) Compare NPV and IRR method of capital budgeting.

- (B) BB Ltd. is considering to purchase a machine. Two machines viz. A and B are available, each costing ₹ 4,00,000. An estimated life of each machine is 5 years. There is no scrap value. The company's required rate of return is 12%. The tax rate applicable to the company is 50%. The expected earnings before depreciation and taxes for the two machines are as follows : **15**

Year	Machine A	Machine B
1	1,40,000	2,20,000
2	1,60,000	2,60,000
3	2,60,000	1,60,000
4	2,00,000	1,20,000
5	1,20,000	1,40,000

Select the most profitable machine using the following methods:

- (1) Pay-back period
 - (2) Average rate of return
 - (3) Net present value
 - (4) Internal rate of return
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