MBA 06 R

M.B.A. DEGREE EXAMINATION, JUNE 2013.

Second Semester

General, Finance, Marketing, HRM, IB, RM, Tourism

Paper VI — FINANCIAL MANAGEMENT

(2012-13 Batch onwards)

Time : Three hours Maximum : 100 marks

SECTION A — (5 x 6 = 30 marks)

Answer any FIVE questions.

1. “Financial Management is more than procurement of funds” — Comment.

2. Explain the Walter’s dividend model.

3. A company has sales of Rs. 1,00,000. The variable costs are 40% of the amounts to Rs 30,000. The amount of interest on long – term debt is Rs. 10,000.

   You are required to calculate the composite leverage and illustrate its impact if sales increase by 5%.
ADD 10% to allow for contingencies.

For wages 2 weeks Rs. 2, 60,000 p.a.
For purchases 4 weeks Rs. 78,000 p.a.

Time available for payments:
Outside state 6 weeks credit Rs. 3, 12,000 p.a.
Local sales 2 weeks credit Rs. 1, 04,000 p.a.
Average credit period:
Stock of stores, materials etc. Rs. 8,000 p.a.
Rs. 10,000 p.a.
Stock of finished goods and work-in-progress
Average amount locked up in stock:
Average amount of working capital required:

6. From the following estimates, calculate the working capital.

5. Explain in brief the various factors influencing

(1) Falls to 3%.
(2) Rises to 8% and
where does the anticipated growth of the firm
Determine the market price of the equity
company
Determine the cost of equity capital of
(a) Dividend is 5% p.a.
per share last year. The expected growth in
per share. The firm had paid a dividend of Rs. 4
The shares of a steel company are quoted at Rs. 42.
The average effective collection period differs from the credit period as all debtors do not strictly adhere to the condition stipulated. The company achieves a contribution of 40% on sales and the firm requires a 20% p.a. return on investment.

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<th>Existing policy</th>
<th>Option I</th>
<th>Option II</th>
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<tbody>
<tr>
<td>(a) Credit period (days)</td>
<td>30</td>
<td>14</td>
<td>60</td>
</tr>
<tr>
<td>(b) Sales (Rs. Lakhs)</td>
<td>10.00</td>
<td>9.60</td>
<td>12.00</td>
</tr>
<tr>
<td>(c) Bad debts (% of sales)</td>
<td>5</td>
<td>3.33</td>
<td>6</td>
</tr>
<tr>
<td>(d) Cost of credit administration (Rs. Lakhs)</td>
<td>0.20</td>
<td>0.12</td>
<td>0.25</td>
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<tr>
<td>(e) Average effective collection Period (days)</td>
<td>45</td>
<td>21</td>
<td>75</td>
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You are required to suggest.

(i) Which credit period is more suitable to the company?

(ii) Do you any further suggestion to make to the management in the context of your finding?

7. Is the MM thesis realistic with respect to capital structure and the value of a firm? If not, what are its main weaknesses?

8. "The objectives of wealth maximisation are superior to profit maximisation"—Do you agree.

SECTION B — (5 × 10 = 50 marks)

Answer any FIVE questions.

9. The following information is available in respect of the rate of return on investments [\( r \)], the capitalization rate [\( K_e \)] and earnings per share [\( E \)] of Hypothetical Ltd.

(a) \( r = 12\% \)
(b) \( r = 11\% \) and
(c) \( r = 8\% \)

\( K_e = 11\% \) and \( E = \text{Rs. 20.} \)

Determine the value of its shares under Gordon model, assuming the following:

<table>
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<th>D/P Ratio (1-b)</th>
<th>Retention Ratio</th>
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<tr>
<td>A</td>
<td>10%</td>
</tr>
<tr>
<td>B</td>
<td>40%</td>
</tr>
<tr>
<td>C</td>
<td>70%</td>
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various credit policy alternatives.
Aero products Ltd, Ponderbury is considering the

17. Case study:

Complimentary

SECTION C — (1 x 20 = 20 marks)

16. Cost of preference capital is generally lower than the cost of equity. State the reasons.

15. Approach to capital structure.

Explanation briefly the Modigliani and Miller

(c) Discounted cash flow method.

(a) Payback period

14. A choice is to be made between two competing proposals which require an equal investment of Rs. 50,000 and are expected to generate net cash flows as under:

Rs.

| Project | Name | Proposal | Rs.
|---------|------|----------|------
| Project I | Project II | Proposal | Rs.
| 0.364 | 6 | Year 1 | 0.09
| 0.621 | 5 | Year 2 | 0.09
| 0.683 | 4 | Year 3 | 0.09
| 0.711 | 3 | Year 4 | 0.09
| 0.828 | 2 | Year 5 | 0.09
| 0.906 | 1 | Year 6 | 0.09

Evaluate the project proposal should be chosen and why?

13. Define Operating and Financial Variance. How can you measure the degree of Operating and Financial Variance?


11. What is Financial Modelling? What are the uses of Financial Modelling?

10. Explain the ARR, NPV, IRR in capital budgeting.