PART C — (1 × 20 = 20 marks)

(Compulsory)

17. An investment of Rs. 10,000 (having scrap value of Rs. 500) yields the following returns:

<table>
<thead>
<tr>
<th>Year</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>CFAT (in Rs.)</td>
<td>4,000</td>
<td>4,000</td>
<td>3,000</td>
<td>3,000</td>
<td>2,500</td>
</tr>
</tbody>
</table>

The cost of capital is 10%. Is the investment desirable?

Discuss it according to Net Present Value (NPV) Method assuming the PV factors for 1st, 2nd, 3rd, 4th and 5th year – 0.909, 0.826, 0.751, 0.683 and 0.620 respectively.

MBAC 2001

M.B.A. DEGREE EXAMINATION, JUNE 2014.

Second Semester

General, Finance, Marketing, HRM, IB, RM, Tourism
OSCM, IM, HM

FINANCIAL MANAGEMENT

(2012–2013 Batch onwards)

Time : Three hours Maximum : 100 marks

PART A — (5 × 6 = 30 marks)

Answer any FIVE questions.

2. What is cost of capital? Explain the significance of cost of capital.
3. Explain the merits of NPV method.
4. What do you mean by Leverage? Explain its types.
5. Explain any five features of an optimum capital structure.
10. Explain the functions of financial management.

9. Answer any PIVC questions.

PART B — (5 x 10 = 50 marks)

12. Explain the assumptions and criticisms of Walker's model of dividend policy.

11. Describe the factors determining capital structure.

10. Discuss the various sources of working capital.

9. Explain the structures of working capital.

8. Estimate working capital requirements of M/S, Rose Ltd. From the following particulars:
   - Projected annual sales Rs. 9,00,000
   - Average credit allowed to dealers - 1 month
   - Average credit allowed by creditors - 2 months
   - Average stock carrying in terms of sales - 2 months
   - 15% depreciation on the plant and machinery
   - Total debt is 10% and the outstanding debt is Rs. 1,20,000.
   - The overall capitalization rate (c) is 12%.
   - Equity capitalization rate under Net Operating Assets (NOA) is 15%.

7. What are the different forms of dividends?

6. Explain any two important theories of capital structure.

5. Compute ARR from the following data:

   - Cash flows after tax: Rs. 1,20,000 per annum.
   - Cost of asset: Rs. 4,00,000. Useful life: 5 years.

4. Compute NPV from the following data:

   - W.D. Dera Ltd. has an EBIT of Rs. 2,00,000 for 6 years.
   - Rs. 50,000 per annum for six years.

3. Average credit given:
   - Export sales - 6 weeks credit - Rs. 3,12,000
   - Local sales - 2 weeks credit - Rs. 1,04,000
   - Stock of stores and materials - Rs. 8,000
   - Stock of finished goods - Rs. 10,000

2. Average amount locked up in stocks:

1. Average amount of working capital required:

   From the following estimates, calculate the income (NOI) approach:

   - Equity capitalization rate under Net Operating Assets (NOA) is 15%.
   - The total debt is 10% and the outstanding debt is Rs. 1,20,000.
   - The overall capitalization rate (c) is 12%.

   Calculate the total value of the firm and the earnings before interest and taxes (EBIT) of Rs. 4,50,000.

   M/S, Dera Ltd. has an EBIT of Rs. 2,00,000 per annum.

   Cash flows after tax: Rs. 1,20,000 per annum.