FINANCIAL MANAGEMENT (SEMESTER - 2)

CS/MBA(NEW)/SEM-2 (FT)/MB-207/09

1. ....
Signature of Invigilator

2. .... ***Reg. No.***
Signature of the Officer-in-Charge

Roll No. of the Candidate

CS/MBA(NEW)/SEM-2 (FT)/MB-207/09

ENGINEERING & MANAGEMENT EXAMINATIONS, JUNE – 2009

FINANCIAL MANAGEMENT (SEMESTER - 2)

Time : 3 Hours] [Full Marks : 70

INSTRUCTIONS TO THE CANDIDATES :

1. This Booklet is a Question-cum-Answer Booklet. The Booklet consists of **36 pages**. The questions of this concerned subject commence from Page No. 3.
2. a) In **Group – A**, Questions are of Multiple Choice type. You have to write the correct choice in the box provided **against each question**.
   b) For **Groups – B** & **C** you have to answer the questions in the space provided marked 'Answer Sheet'. Questions of **Group – B** are Short answer type. Questions of **Group – C** are Long answer type. Write on both sides of the paper.
3. **Fill in your Roll No. in the box** provided as in your Admit Card before answering the questions.
4. Read the instructions given inside carefully before answering.
5. You should not forget to write the corresponding question numbers while answering.
6. Do not write your name or put any special mark in the booklet that may disclose your identity, which will render you liable to disqualification. Any candidate found copying will be subject to Disciplinary Action under the relevant rules.
7. **Use of Mobile Phone and Programmable Calculator is totally prohibited in the examination hall.**
8. You should return the booklet to the invigilator at the end of the examination and should not take any page of this booklet with you outside the examination hall, **which will lead to disqualification**.
9. Rough work, if necessary is to be done in this booklet only and cross it through.

No additional sheets are to be used and no loose paper will be provided

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FOR OFFICE USE / EVALUATION ONLY

Marks Obtained

Group – A **Group – B** **Group – C**

Question Number																	***Total Marks***	***Examiner's Signature***
Marks Obtained																		

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Head-Examiner/Co-Ordinator/Scrutineer

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GROUP – A

(Multiple Choice Type Questions)

1. Choose the correct alternatives for any *ten* of the following : 10 ∞ 1 = 10

i) Which of the following is not correct ?

a) Cost of equity capital is the rate of return expected by equity shareholders

b) Cost of reserve is free of cost

c) Cost of debt is the rate of return expected by lender

d) Cost of preference share capital is the rate of return expected by preference shareholders.

ii) Working capital of a firm does not include

a) cash balance
b) balance of Sundry Debtor
c) stock in hand
d) immovable assets.

iii) The appropriate objective of an enterprise is

a) maximization of owner's wealth

b) maximization of net profits

c) maximization of sales

d) inventory control.

iv) The larger the systematic risk,

a) the larger is the expected return

b) the lower is the expected return

c) the expected return remains unaltered

d) none of these.

v) Stable dividend means

a) constant dividend per share
b) the constant dividend pay-out ratio

c) both (a) and (b)
d) none of these.

vi) Leverage causes a rise in the EPS when

a) return on investment = cost of debt

b) return on investment > cost of debt

c) return on investment < cost of debt

d) both (b) and (c).

vii) When the market's required rate of return for a particular bond is much less than its coupon rate, the bond is selling at

a) a premium

b) a discount

c) cannot be determined without more information

d) face value.

viii) Which of the following statements (in general) is correct ?

a) A low receivable turnover is desirable

b) The lower the total debt-to-equity ratio, the lower the financial risk for a firm

c) An increase in net profit margin with no change in sales or assets means a poor ROI

d) The higher the tax rate for a firm, the lower the interest coverage ratio.

ix) Which of the following would be consistent with a more aggressive approach to financing working capital ?

a) Financing short-term needs with short-term funds

b) Financing permanent inventory buildup with long-term debt

c) Financing seasonal needs with short-term funds

d) Financing some long-term needs with short-term funds.

x) In deciding the appropriate level of current assets for the firm, management is confronted with

a) a trade-off between profitability and risk

b) a trade-off between liquidity and marketability

c) a trade-off between equity and debt

d) a trade-off between short-term versus long-term borrowing.

xi) What is the present value of Re. 1/- cash flow to be received annualy at the end of each of the next three years if the discount rate is 15% ?

a) Rs. 1.859 b) Rs. 1.736

c) Rs. 1.626 d) Rs. 2.283.

xii) Determine the present value of Rs. 1,500 to be received at the end of ten years if the compounded rate of interest is 9%.

a) Rs. 674.00 b) Rs. 633.62

c) Rs. 710.25 d) Rs. 583.12.

GROUP – B

(Short Answer Type Questions)

Answer any *three* of the following. 3 ∞ 5 = 15

2. The Logan Corporation currently has earnings that are Rs. 4.00 per share. In recent years earnings have been growing @ 7.5%, and this rate is expected to continue in the future. If the Logan Corporation has a retention rate of 40% and a required rate of 14%, what is its current value ?

3. Explain "overcapitalization" and "undercapitalization".

4. Stock of DEF Ltd begins the year with a price of Rs. 25/- per share and ends with a Rs. 35/- per share. During the year, it paid Rs. 2/- dividend per share. What are the dividend yields, its capital gain, and its total return for the year ?

5. The return from securities *A* and *B* are given below :

Probabilities	**Security-A**	**Security-B**
0·6	5	0
0·3	2	4
0·1	0	4

Identify the security of your preference, which is to be selected on the basis of return and risk analysis.

6. A Firm has a following capital structure and after-tax costs for the different sources of funds used :

Source of	Amount	Proportion (%)	After-tax cost(%)
Debt	15,00,000	25	5
Preference	12,00,000	20	10
Equity shares	18,00,000	30	12
Retained	15,00,000	25	11
Total	60,00,000	100	

You are required to compute the weighted average cost of capital.

GROUP – C

(Long Answer Type Questions)

Answer any *three* of the following. $3 \infty 15 = 45$

7. From the following budget of Sunshine Floorings Limited, forecast the cash position at the end of April, May and June, 2009 : 15

Month	Sales	Purchases	Wages (Rs.)	Miscellaneous (Rs.)
February	1,20,000	84,000	10000	7000
March	1,30,000	1,00,000	12000	8000
April	80,000	1,04,000	8000	6000
May	1,16,000	1,06,000	10000	12000
June	88,000	80,000	8000	6000

Additional Information :

i) ***Sales*** : 20% realized in the month of sales, discount allowed 2%. Balance realized equally in two subsequent months.

ii) ***Purchases*** : These are paid in the month following the month of supply.

iii) ***Wages*** : 25% paid in arrears in the following month.

iv) ***Miscellaneous expenses*** : Paid a month in arrears.

v) ***Rent*** : Rs. 1000 per month paid quarterly in advance due in April.

vi) ***Income Tax*** : First instalment of advance tax Rs. 25,000 due on or before 15th June.

vii) ***Income from investment*** : Rs. 5,000 received quarterly, in April, June, etc..

viii) ***Cash in hand*** : Rs. 5,000 on 1st April, 2009.

8. A company is considering to relax its accounts collection effort. Its present sales ranged Rs. 50 million, accounts collection program (ACP) is 20 days, variable cost to sales ratio (V/S) = 0·80, cost of capital = 10%. Its bad debt ratio is 0·05. The relaxation in collection programme is expected to increase sales by Rs. 5 million, increase ACP to 40 days and bad debt ratio to 0·06. Income tax rate is 30%. 15

   Examine the effect of change in collection programme on firm's profit. Assume 360 days in a year.

9. a) Mehta Industries have a policy of maintaining Rs. 5,00,000 minimum cash balance. The standard deviation of the company's daily cash flows is Rs. 2,00,000. The interest rate is 14%. The company has to spend Rs. 150 per transaction. Calculate the upper and lower limits and the return point as per Miller-Orr Model.

   b) A firm's annual cost requirement is Rs. 2,00,00,000. The opportunity cost of capital is 15% per annum. Rs. 150 is the per transaction cost for the firm when it converts its short-term securities to cash. Find out the optimum cash balance. What is the annual cost of the demand for the optimum cash balance ? 7 + 8

10. Modern Enterprise Ltd. is considering the purchase of a new computer system for its research and development division, which would cost Rs. 35 lakh. The operation and maintenance costs are expected to be Rs. 7 lakh per annum. It is estimated that the useful life of the system would be 6 years, at the end of which the disposal value is expected to be Rs. 1 lakh.

    The tangible benefits expected from the system in the form of reduction in design and draftsmanship costs would be Rs. 12 lakh per annum. The disposal of used drawing office equipment and furniture initially is anticipated to net Rs. 9 lakh.

    As capital expenditure in research and development, the proposal would attract a 100% write-off for tax purpose. The effective corporate tax is 35%. The average cost of capital of the company is 12%.

11. ABC Ltd. has currently an equity shares capital of Rs. 40 lakhs, consisting 40000 equity shares of Rs. 100 each. The management is planning to raise another Rs. 30 lakhs to finance a major programme of expansion through one of four possible financing plans. The options are :

a) Entirely through equity issues

b) Rs. 15 lakhs in equity shares of Rs. 100 each and the balance in 8% debentures

c) Rs. 10 lakhs in equity shares of Rs. 100 each and the balance through long term borrowings at 9% interest per annum.

d) Rs. 15 lakhs in equity shares of Rs. 100 each and the balance through preference shares with 5% dividend.

The company's expected EBIT will be Rs. 25 lakhs. Assuming corporate tax rate of 30%. You are required to determine the EPS and comment on the financial leverage under each of the above scheme of financing.

END