FINANCIAL MANAGEMENT (SEMESTERS - 2 & 4)

CS/MBA(O)/SEM-2 (FT) & 4 (PT)/MB-208/09

1. ....
Signature of Invigilator

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

Roll No. of the Candidate | | | | | | | | | | | | | | | |

CS/MBA(O)/SEM-2 (FT) & 4 (PT)/MB-208/09

ENGINEERING & MANAGEMENT EXAMINATIONS, JUNE – 2009

FINANCIAL MANAGEMENT (SEMESTERS - 2 & 4)

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

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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ENGINEERING & MANAGEMENT EXAMINATIONS, JUNE – 2009

FINANCIAL MANAGEMENT

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GROUP – A

(Multiple Choice Type Questions)

1. Choose the correct alternatives for any *ten* of the following : $10 \times 1 = 10$

i) The objective of Financial Management is

a) maximization of profits

b) wealth maximization of shareholders

c) ensuring financial discipline in the organization

d) arrangement of funds and utilizing it.

ii) If the annual cash inflows for a bond is Rs. 200, the present value of the bond, if the inflows continue for 5 years at a required rate of 11% is

(Given that $PVIFA_{n = 5, r = 0{\cdot}11}$ is 3.696)

a) Rs. 639 b) Rs. 739

c) Rs. 839 d) Rs. 939.

iii) If a two year redeemable bond is purchased and held till maturity, the rate of return earned is called

a) coupon rate b) required rate of return

c) yield to maturity d) current yield.

iv) Which of the following is a determinant of working capital of a firm ?

a) Depreciation policy   b) Taxes payable

c) Production policy   d) All of (a), (b) and (c).

v) Dividend Pay-out Ratio is

a) a ratio between dividend paid and the number of equity shares

b) DPS divided by EPS

c) a ratio between PAT and Dividend paid

d) EPS divided by DPS.

vi) Which of the following approaches advocates that the costs of equity capital and debt capital remain unaltered when the degree of leverage varies ?

a) Net Income Approach   b) Net Operating Income Approach

c) Traditional Approach   d) Modigliani-Miller Approach.

vii) Negative Working Capital respects

a) excess of current assets over current liabilities

b) excess of current liabilities over current assets

c) excess of fixed assets over current assets

d) none of these.

viii) IRR is the discount rate, at which

a) NPV > 0 b) NPV < 0

c) NPV = 0 d) none of these.

ix) An annuity for an infinite period of time is called as

a) Capital recovery factor

b) Sinking fund

c) Time value of money

d) Perpetuity.

x) The credit policy of a company is a trade–off between increased credit sales leading to higher profits and cost of large cash locked up in

a) Receivables b) Payables

c) Inventories d) Administrative Expenses.

xi) The cost of investment in accounts receivables is called as

a) Collection cost b) Capital cost

c) Delinquency cost d) Default cost.

xii) The compounded value of Rs. 100 invested at 10% compounded annually is

a) Rs. 1,221 b) Rs. 1,331

c) Rs. 1,341 d) Rs. 1,242.

GROUP – B

(Short Answer Type Questions)

Answer any *three* of the following. $3 \infty 5 = 15$

2. What is capital budgeting ? Examine its need and importance.

3. State the disadvantages of inadequate working capital.

4. Discuss the Modigliani and Miller approach to the capital structure and cost of capital.

5. Discuss the factors that affect the dividend policy of a firm.

6. Write short notes on the following :

   a) Lock Box System

   b) Concentration Banking.

GROUP – C

(Long Answer Type Questions)

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

7. A Portfolio consisting of five securities has the following information :

Share	*Percentage of Portfolio*	*Beta*
M	20	1.20
N	15	0.90
P	15	1.05
Q	40	1.04
R	10	0.95

If the risk free rate of return is 12% and the average market return is 18%, what is the expected rate of return of the portfolio ?

8. XY Ltd. wants to instal a new machine in the place of an existing old one which has become obsolete. The company made extensive enquiries and from the replies received short listed two offers. The two models differ in cost, output and anticipated net revenue. The estimated life of both the machines is five years. There will be only negligible salvage value at the end of the fifth year. Further details are as follows :

Rs. Lakhs

Machine	***Cost***	***Anticipated after tax cash flow***				
		Year 1	***Year 2***	***Year 3***	***Year 4***	***Year 5***
A	25	–	5	20	14	6
B	40	10	14	16	17	8

The company's cost of capital is 16%. You are required to make an appraisal of the two offers and advise the firm by using the following :

i) Pay-back period

ii) NPV

iii) Profitability Index Method

iv) IRR.

Note : PV of Re. 1

End of Year	16%	18%	20%
1	0·862	0·847	0·833
2	0·743	0·718	0·694
3	0·641	0·609	0·579
4	0·552	0·516	0·482
5	0·476	0·437	0·402

9. In order to increase sales from the normal level of Rs. 2·4 lakhs p.a., the marketing manager submits a proposal for liberalizing credit policy as under :

Normal Sales	Rs. 2·4 lakhs
Normal credit period	30 days
Proposed increase in Credit period beyond Normal 30 days	*Relevant increase over normal sales (Rs.)*
15 days	12,000
30 days	18,000
45 days	21,000
60 days	24,000

The PV ratio of the company is $33\frac{1}{3}$%. The required return is 20 per cent. Evaluate the above four alternatives and advise the management.

(Assume 360 days a year).

10. XYZ Ltd. has raised Rs. 50 lacs by issuing Bonds, Rs. 50 lacs by issuing Preference shares and another Rs. 50 lacs by issuing Equity shares. The particulars of such Bonds and Shares are as under :

Bond-Face Value = Rs. 1,000

Coupon Rate = 10% p.a., payable annually

Tenure = 5 years

Redemption-Bullet at par.

Current Market Price = Rs. 1,000

Preference Share-Dividend Rate 8% p.a.

Equity Share-EPS = Rs. 12 in year 1

Current Market Price = Rs. 100

If the average tax rate for XYZ Ltd. Is 30%, compute its

a) Cost of Debt Capital

b) Cost of Preference Capital

c) Cost of Equity Capital

d) Weighted Average Cost of Capital.

11\. a) Explain the various factors influencing working capital. 6

b) A Proforma of a cost sheet of a company provides the following particulars :

Element of Cost	*Amount Per Unit*
Raw materials	Rs. 80/-
Direct labour	Rs. 30/-
Overheads	Rs. 60/-
	Rs. 170/-
Profit	Rs. 30/-
Selling Price	Rs. 200/-

The following additional information are available :

i) Raw materials are in stock on an average for one month.

ii) Materials are in process on an average for half a month.

iii) Finished goods are in stock on an average for one month.

iv) Credit allowed by suppliers is one month.

v) Credit allowed to customer is two months.

vi) Lag in payment of wages is $1\frac{1}{2}$ weeks.

vii) Lag in payment of overheads is one month.

viii) One-fourth of output is sold against cash

ix) Cash in hand is expected Rs. 25,000/-.

You are required to prepare a statement showing the working capital needed to finance a level of activity of 1,04,000 units of production.

You may assume that production is carried on evenly throughout the year, wages & overheads accrue similarly. 9

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