

**End Semester Examinations - 2015-16 MBA Trimester - May 2016**

**14MS3015 Financial Management**

**Set A**

**Time : 3 hrs**  
**Total Marks: 100**

1. “Maximisation of profits is regarded as the proper objective of investment decision but it is not as exclusive as maximizing shareholder’s wealth”. – Comment (20 Marks)

**OR**

2. The Finance Manager plays a crucial role in taking key decisions for the company. What are they? and how do they impact in the business?. (20 Marks)
3. Prepare a statement showing the Working Capital Requirements forecast for a level of activity of 1,56,000 units of production.

The following information is available for your calculation. (20 Marks)

	(Rs. per unit)
Raw Materials	90
Direct Labour	40
Overheads	75
<b>Total Cost</b>	<b>205</b>
Profit	60
Selling price per unit	265

- a. Raw materials are in stock on average one month
- b. Materials are in process, on average 2 weeks.
- c. Finished goods are in stock, on average one month.
- d. Credit allowed by suppliers, one month
- e. Time lag in payment from debtors – 2 months.
- f. Lag in payment of wages – 1 ½ weeks.
- g. Lag in payment of overheads – 1 month

Provide 10% for contingencies.

**OR**

4. Define operating and financial leverage. How can you measure the degree of operating and financial leverage? Illustrate with an example. (20 Marks)
5. Devan Company Ltd., has the following capital structure as on March 31, 2015.

Sources of funds	Amount (Rs.)
Equity share capital	40,00,000
12% Preference shares	10,00,000
10% Debentures	30,00,000

The equity share of the company sells for Rs. 20. It is expected that the company will pay next year dividend of Rs.2 per equity share, which is expected to grow at 5% forever. Assume a 35% tax rate. Compute the Weighted Average Cost of Capital (20 Marks)

**OR**

6. Your company requires additional funds of Rs.60 lakhs to be raised for expansion purpose.

Examine the merits and demerits of the following instruments for your company.

- a. Redeemable Preference Shares
- b. Debentures

What are the other alternatives available for you? Which would you prefer and why? (20 Marks)

7. Details regarding three companies are given below:

A Ltd.	B Ltd.	C Ltd.
$r = 15\%$	$r = 10\%$	$r = 8\%$
$K_e = 10\%$	$K_e = 10\%$	$K_e = 10\%$
$E = \text{Rs.}10$	$E = \text{Rs.} 10$	$E = \text{Rs.}10$

By using Walter's Model, you are required to

- a. Calculate the value of an equity share of each of these companies when dividend pay-out ratio is (i) 20% (ii) 50% (iii) 0% and (iv) 100%.

- b. Comment on the results drawn. (20 Marks)

**OR**

8. Describe the factors that should be considered in determining the appropriate capital structure of a corporate? (20 Marks)

9. Jovan Steel Ltd. whose cost of capital is 10% is considering investing in a project. The following particulars are available.

Initial Investment - Rs. 90,000

<u>Year</u>	<u>Cash Inflows</u>
1	Rs. 10,000
2	Rs. 20,000
3	Rs. 30,000
4	Rs. 40,000
5	Rs. 50,000

You are required to suggest whether the project is feasible for Jovan to make investment in it, applying the following capital budgeting techniques. Justify with reasons.

- i. Pay Back Period (ii) Net Present Value (iii) Profitability index. (20 Marks)

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**Wishing you All the Best**

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