Reg.No. \_\_\_\_\_\_\_\_\_\_\_\_

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**End Semester Examination – Nov/Dec – 2018**

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| **Code : 16MS3008** |  | **Duration :** | **3hrs** |
| **Sub. Name : FINANCIAL MANAGEMENT** |  | **Max. marks :** | **100** |

**ANSWER ALL QUESTIONS (5 x 20 = 100 Marks)**

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| **Q. No.** | **Sub Div.** | **Questions** | **Course**  **Outcome** | **Marks** |
| 1. | a. | State the Objectives of Financial Management. | CO1 | 10 |
| b. | “Maximisation of profits is regarded as the proper objective of investment decision but it is not as exclusive as maximizing shareholder’s wealth” – Comment. | CO1 | 10 |
| (OR) | | | | |
| 2. |  | Define operating and financial leverage. How can you measure the degree of operating and financial leverage? Illustrate with an example. | CO1 | 20 |
|  |  |  |  |  |
| 3. |  | ONGC 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 | CO3 | 20 |
| (OR) | | | | |
| 4. |  | Describe the factors considered for dividend policy implemented in an organisation? | CO1 | 20 |
|  |  |  |  |  |
| 5. |  | Details regarding three companies are given below:   |  |  |  | | --- | --- | --- | | A Ltd. | B Ltd. | C Ltd. | | r = 15%  Ke = 10%  E = Rs.10 | r = 10%  Ke = 10%  E =Rs.10 | r = 8%  Ke = 10%  E = Rs.10 |     By using Walter’s Model, you are required to  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%.  Comment on the results drawn. | CO3 | 20 |
| (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? | CO1 | 20 |
|  |  |  |  |  |
| 7. | a. | “Working Capital management is indispensable for any organization”. What are the determining factors of Working capital decisions? | CO1 | 10 |
| b. | Mention the types of Working Capital. | CO1 | 10 |
| (OR) | | | | |
| 8. |  | 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.   |  |  | | --- | --- | |  | (Rs.per unit) | | Raw Materials | 90 | | Direct Labour | 40 | | Overheads | 75 | |  | 205 | | 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.  Provide 10% for contingencies. | CO3 | 20 |
|  | |  |  |  |
|  | | **Compulsory**: |  |  |
| 9. |  | Mittal Steel whose cost of capital is 10% is considering investing in a project on Essar Steel. The following particulars are available. (Rs. in lakhs)  Initial Investment - Rs. 90,000  **Year Cash Inflows**  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 Arcelor Mittal to make investment in it , applying the following capital budgeting techniques. Justify with reasons.   1. Pay Back Period 2. Net Present Value 3. Profitability index. | CO3 | 20 |