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



**End Semester Examination – Nov / Dec – 2019**

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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. | What are the basic financial decisions? How do they involve risk-return trade off? | CO1 | | 10 |
| b. | Explain the relationship between finance function and other functions. | CO1 | | 10 |
| **(OR)** | | | | | |
| 2. | a. | Mr. Manoj invests Rs. 1,00,000 in a bank at 10 per cent for 5 years. Calculate the maturity value if interest is compounded annually. Will he get more if interest is compounded half-yearly? | CO1 | | 10 |
| b. | Mr. X expects to receive the following payments.   |  |  |  |  |  | | --- | --- | --- | --- | --- | | **Period** | 0 year | I year | II year | III year | | **Amount (Rs)** | 1000 | 1000 | 1000 | 1000 |   If the rate of interest is 10 per cent, find out the present value of each of the receipts using formula. Give your comments. | CO1 | | 10 |
|  |  |  |  | |  |
| 3. |  | Consider the following proposed investments with the indicated cash inflows:   |  |  |  |  |  | | --- | --- | --- | --- | --- | | **Investment** | **Initial Outlay (Rs.)** | **Year-end Cash Inflows** | | | | **Year 1 (Rs.)** | **Year 2 (Rs.)** | **Year 3 (Rs.)** | | A | 2,00,000 | 2,00,000 | NIL | NIL | | B | 2,00,000 | 1,00,000 | 1,00,000 | 1,00,000 | | C | 2,00,000 | 20,000 | 1,00,000 | 3,00,000 | | D | 2,00,000 | 2,00,000 | 20,000 | 20,000 | | E | 2,00,000 | 1,40,000 | 60,000 | 1,00,000 | | F | 2,00,000 | 1,60,000 | 1,60,000 | 80,000 |   Rank the investments deriving the Net Present Value (NPV) using a discount rate of 10 per cent and state your views.   |  |  |  |  | | --- | --- | --- | --- | | **Year** | 1 | 2 | 3 | | **P.V. factor @ 10%** | 0.909 | 0.826 | 0.751 | | CO2 | | 20 |
| **(OR)** | | | | | |
| 4. |  | The following is the capital structure of Yellow Ltd.   |  |  | | --- | --- | | Equity Share Capital 30,000 shares of Rs. 100 each | Rs. 30,00,000 | | 10% Preference shates of Rs. 100 each | 12,00,000 | | 12% Debentures | 18,00,000 | | Total | 60,00,000 |   The market price of the company’s shares is Rs. 120. It is expected that the company will pay a dividend of Rs. 10 per share next year. The dividend growth rate is 7%. The company is in the 50% tax bracket.  i) Compute the weighted average cost of capital based on the existing  Capital Structure.  ii) The company proposes to borrow Rs. 30 lakhs at 14% interest to finance its expansion plan. The financing plan is expected to an increase in dividend from Rs. 10 to Rs. 12 per share. However, the market price is expected to decline from Rs. 120 to Rs.110. Compute the Weighted Average Cost of Capital after the term loan is raised. | | CO2 | 20 |
|  |  |  | |  |  |
| 5. |  | Y Ltd. is capitalized with Rs. 10 lakhs, divided into 10,000 shares of Rs.100 each. The management desires to raise another Rs. 10 Lakh to finance an expansion plan. There are four alternatives.   1. All equity shares 2. Equity shares for Rs.5 lakhs and 5% debentures for Rs. 5 lakhs. 3. All debentures carrying 6%. 4. Equity shares of Rs. 5,00,000 abd 5% preference shares of   Rs.5,00,000.  You are required to calculate the earnings per share (EPS) under each of the above plans if the expected earnings before interest and taxes is  (a) Rs. 1,20,000 (b) Rs.2,40,000  Assume a tax rate of 40%. | | CO2 | 20 |
| **(OR)** | | | | | |
| 6. |  | Calculate operating and financial leverages under situations I and II from the following information. What are the combinations of operating and financial leverage which give the highest and least value?  Total Assets Rs. 30,000  Total Assets Turnover ratio 2.  Variable cost as a percentage of Sales 60%  Fixed Costs : Situation A Rs. 6,000  Situation B Rs. 9,000. | CO2 | | 20 |
|  |  |  |  | |  |
| 7. |  | The following information is available in respect of a firm.  Capitalisation rate = 10%; Earnings per share = Rs.40;  Assumed rate of return on investments (i) 12% (ii) 10% (iii) 8%.  Show the effect of dividend policy on market price of shares  applying Walter’s formula when dividend payout ratio is  (a) 0% (b) 50% (c) 100% | CO3 | | 20 |
|  |  |  |  | |  |
| **(OR)** | | | | | |
| 8. |  | Violette Industries Ltd. is considering two mutually exclusive proposals A and B.  **Proposal A** will cost Rs. 14,000 with no salvage value and will require an increase in the level of inventories and receivables (working capital) Rs. 6000 over its life. The project will generate additional sales of Rs. 13,000 and will require cash expenses of Rs. 4,000 in each of its 5 year life. It will be depreciated on a straight line basis.  **Proposal B** require an initial capital of Rs. 20,000 with no salvage value and will be depreciated on a straight line basis.  The Earnings Before Depreciation and Tax are as follows:   |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | | **Year** | 1 | 2 | 3 | 4 | 5 | | **Earnings** | Rs. 7,000 | 7,600 | 8,000 | 9,000 | 9,200 |   The company’s cost of capital is 10% and tax rate is 35%.  Which project is acceptable under NPV method?  Assume Working Capital will realize at the end of the 5th Year. | CO3 | | 20 |
|  | | **Compulsory**: |  | |  |
| 9. |  | Cost sheet of a company provides the following partilculars. Raw Materials 40%; Labour 10%; Overheads 30%.  The following details are also available.   1. Raw materials remain in stores for 6 weeks. 2. Processing time 4 weeks. 3. Finished goods are in stock for 5 weeks. 4. Period of credit allowed to debtors 10 weeks. 5. Lag in payment of wages 2 weeks 6. Period of credit allowed by creditors 4 weeks 7. Selling price Rs. 50 per unit. 8. Production in units 13,000 per annum.   Prepare an estimate of Working Capital. | CO3 | | 20 |