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



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

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| **Code :** | **18MS3008** | **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. | Explain the approaches to Financial Management. | CO1 | 10 |
| b. | Discuss the significance of Finance Function. | CO1 | 10 |
| (OR) | | | | |
| 2. | a. | Mr. X invested Rs. 2,00,000 at 12 per cent p.a. for two years.What will be the value of investment after two years, if interest is compounded (a) half-yearly (b) quarterly (c) monthly. Which is most beneficial to Mr. X.? | CO1 | 10 |
| b. | Calculate the present value of the following cash inflows, if the rate of interest is 10%.   |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | | **Year** | 1 | 2 | 3 | 4 | 5 | | **Amount (Rs.)** | 5000 | 6000 | 7000 | 8000 | 9000 | | 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. |  | Y Ltd. is considering the purchase of a new plant requiring a cash outlay of Rs.20,000. The life of the plant is 2 years. Using  10 percent as the cost of capital, construct a decision tree for the proposed investment.  **I Year :**   |  |  |  | | --- | --- | --- | | **Event** | **Cash Inflows (Rs.)** | **Probability** | | 1 | 12,500 | 0.4 | | 2 | 15,000 | 0.6 |   **II Year :**   |  |  |  |  | | --- | --- | --- | --- | | **If the cash inflows in the first year are :** | | | | | **Rs.12,500** | | **Rs. 15,000** | | | **Cash Inflows (Rs.)** | **Probability** | **Cash Inflows (Rs.)** | **Probability** | | 6,000 | 0.2 | 10,000 | 0.2 | | 8,000 | 0.6 | 12,500 | 0.5 | | 11,000 | 0.2 | 15,000 | 0.3 | | CO2 | 20 |
|  |  |  |  |  |
| 5. | a. | The following is the capital structure of a company.   |  |  | | --- | --- | |  | **Rs.** | | Equity shares of Rs. 100 each | 20,00,000 | | Reserves and Surplus | 8,00,000 | | 9% Preference share capital | 12,00,000 | | 7% Denemtures | 10,00,000 | | **Total capital** | **50,00,000** |   The company earns 12% on its total caplital. The company proposes to invest Rs.25 lakhs in an expansion programme. The following alternatives are available.  Plan A – Issue of 20,000 equity shares at a premium of Rs. 25  Plan B – Issue of 10% preference shares  Plan C – Issue of 8% debentures.  The price earning ratios are estimated as follows : Plan A -13; Plan B – 12; Plan C – 10. Evaluate the financing plans and make your recommendations, assuming a corporate tax rate of 50%. | CO2 | 10 |
| b. | A Ltd. expects a net operating income of Rs.1,20,000. It has Rs. 6,00,000, 6% debentures. The overall capitalization rate is 10%.   1. Calculate the value of the firm and cost of equity according to the Net Operating Income (NOI) Approach. 2. What will be the value of the firm and cost of equity, if debenture debt is increased to Rs. 9,00,000? | CO3 | 10 |
| (OR) | | | | |
| 6. | a. | Explain the impact of various combinations of operating and financial leverage. Which combination is considered to be an ideal situation for a company? | CO2 | 10 |
| b. | The capital structure of Hindustan Corporation Ltd., consists of equity share capital of Rs.10,00,000 (Shares of Rs. 100 par value) and Rs. 10,00,000 of 10% debentures. Sales has increased from 1,00,000 units to 1,20,000 units, the selling price is Rs. 10 per unit. Variable cost amounts to Rs. 6 per unit and fixed expenses amount to Rs. 2,00,000. The income tax rate is assumed to be 50%.  You are required to calculate the following:   1. The percentage increase in EPS. 2. Degree of operating leverage at 1,00,000 units to 1,20,000 units. 3. Degree of financial leverage at 1,00,000 units and 1,20,000 units.   Comment on the risk position of the firm. | CO3 | 10 |
|  |  |  |  |  |
| 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. |  | A company issues 20,000 10% shares of Rs.100 each. The issue expenses were Rs. 2 per share. Calculate the cost of preference share capital if the shares are issues  (a) at par (b) at a premium of 10% (c) at a discound of 5% | 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 |