PS – 294

5

II Semester M.B.A. (Day/Evening) Examination, Nov./Dec. 2022
(CBCS – 2021-22 Onwards)
MANAGEMENT
Paper – 2.5 : Financial Management

Time : 3 Hours Max. Marks : 70

SECTION – A

Answer **any five** questions, **each** question carries **5** marks : **(5×5=25)**

1. Write a short note on agency problem and agency cost in managing company form of organisations.

2. Explain the concept of EBIT-EPS Analysis and its applicability in deciding upon capital structure.

3. State the acceptance criterion for decision making under different techniques of capital budgeting.

4. A doctor is planning to buy an X-ray machine for his hospital. He has two options. He can either purchase it by making a cash payment of Rs. 5 lakhs or Rs. 6,15,000 are to be paid in six equal annual instalments. Which option do you suggest to the doctor assuming the rate of return is 12% ?

5. Annual sales of a company is Rs. 60,00,000. Sales to variable cost ratio is 150% and fixed cost other than interest is Rs. 5,00,000 p.a. Company has 11% debentures of Rs.30,00,000.

   i) Calculate the operating, financial and combined leverage of the company.

   ii) If sales amount is increased by 10%, by what percent EBIT will increase ?

6. A firm sells its products for Rs. 10 per unit of which Rs. 7 represents variable costs. Current annual sales are Rs.12,00,000 entirely on credit and the average total cost per unit is Rs.9. The firm is considering a more liberal extension of credit which will result in a slowing process of average collection period from 1 month to 2 months. This relaxation in credit terms is expected to produce a 25% increase in sales, that is Rs.15,00,000 annually. Advise the firm regarding adoption of new credit policy assuming that the firm's required rate of investment is 25%.

P.T.O.

7. i) ABC Company's Equity Share is quoted in the market at Rs. 25 per share currently. The company pays a dividend of Rs. 2 per share and the investor's market expects a growth rate of 6% per year. You are required to calculate the Company's Cost of Equity Capital.

   ii) If the company issues 10% debentures of face value of Rs. 100 each and realises Rs. 96 per debenture while the debentures are redeemable after 12 years at a premium of 12%, what will be the cost of debenture? Assume Tax rate to be 50%.

SECTION – B

Answer **any three** questions, **each** question carries **10** marks. **(3×10=30)**

8. Discuss the different sources of Financing Working Capital needs of a business enterprise.

9. A company is faced with the problem of choosing between two mutually exclusive projects. Project A requires a cash outlay of Rs. 1,00,000 and cash running expenses of Rs. 35,000 per annum. On the other hand, Project B will cost Rs. 1,50,000 and requires a cash running expenses of Rs. 20,000 p.a. Both the machines have a 8 year life. Project A has Rs.4,000 salvage value and Project B has Rs. 14,000 salvage value. The company's tax rate is 50% and it has a 10% required rate of return. Assume depreciation on straight line basis. Which project should be accepted ?

10. The existing capital structure of ABC Ltd. is as follows :

Equity Shares of Rs. 100 each	Rs. 40,00,000
Retained Earnings	Rs. 10,00,000
9% Preference Shares	Rs. 25,00,000
7% Debentures	Rs. 25,00,000

Company earns a return of 12% and the tax rate is 30%. Company wants to raise Rs.25,00,000 for its expansion project for which it is considering the following alternatives :

i) Issue of 20,000 equity shares of Rs. 100 each at a premium of Rs. 25 per share.

ii) Issue of 10% debentures.

iii) Issue of 9% preference shares.

Projected that P/E ratios in the case of equity, debentures and preference financing is 19, 17 and 20 respectively, which alternative would you consider as the best ?

11. The following information is given for QB Ltd.

Earnings per share	Rs.12
Dividend per share	Rs.3
Cost of capital	18%
Internal rate of return on investment	22%
Retention ratio	40%

Calculate the market price per share using :

i) Gordon's formula

ii) Walters formula.

SECTION – C

12. **Compulsory** Question : **(1×15=15)**

A company has prepared its annual budget, relevant details of which are reproduced below :

a) Sales Rs.46.80 lakhs 25% cash sales and balance on credit – 78,000 units

b) Raw material cost – 60% of sales value

c) Labour cost – Rs. 6 per unit

d) Variable overheads – Rs. 1 per unit

e) Fixed overheads – Rs. 5 lakhs (including Rs. 1,10,000 as depreciation)

f) Budgeted stock levels :

Raw materials – 3 weeks

Work-in-progress – 1 week (Material 100%, Labour and overheads 50%)

Finished goods – 2 weeks

g) Debtors are allowed credit for 4 weeks

h) Creditors allow 4 weeks credit

i) Wages are paid bimonthly, i.e., by the 3rd week and by the 5th week for the 1st and 2nd weeks and the 3rd and 4th weeks respectively.

j) Lag in payment of overheads – 2 weeks

k) Cash-in-hand required – Rs. 50,000

Prepare the working capital budget for a year for the company, making whatever assumptions that you may find necessary.