PG – 1416

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II Semester M.B.A. (Day and Eve.) Examination,
December 2024/January 2025
(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. State and explain the main objectives of Financial Management.

2. What is Cost of Capital ? Explain the importance of Cost of Capital in business decisions.

3. What is Dividend policy ? Briefly explain different types of Dividend policies.

4. A company is faced with the problem of choosing with the two mutually exclusive projects. Project A requires a cash outlay of Rs. 10,00,000 and cash running expenses of Rs. 3,50,000 per annum. On the other hand Project B will cost Rs. 15,00,000 and requires a cash running expenses of rupees Rs. 2,00,000 per annum. Both machines have an 8 year life. Project A has Rs. 40,000 salvage value and Project B has Rs. 1,40,000 salvage value. The company's tax rate is 50% and it has a 10% required rate of return. Assume depreciation of straight line basis. Which project should be accepted ?

5. A firm's sales, variable costs and fixed costs amount to Rs. 75,00,000, Rs. 42,00,000 and Rs. 6,00,000 respectively. It has borrowed Rs. 45,00,000 at 9% and its equity capital total's 55,00,000.

   a) What is the firm's Return on investment ?

   b) What are the operating, financial and combined leverages of the firm ?

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6. A company is contemplating on issues of New Equity shares. The firm's Equity shares are currently selling at 125 per share. The historical pattern of dividend payments for the last 5 years is given as shown in the table below.

Year	Dividend per share in Rs.
1	10.70
2	11.45
3	12.27
4	13.11
5	14.03

So you are required to determine the following :

a) Growth Rate in dividends.

b) Cost of Equity Capital assuming growth rate determined under situation 1 continues for ever.

7. A firm sells its products for Rs. 50 per unit of which 60% represents variable costs, current annual sales are Rs. 50,00,000 entirely on credit and the average total costs per unit is Rs. 45. The firm is considering a more liberal extension of credit which will result in increase of average collection period from 1 month to 2 months. This relaxation in credit terms is expected to produce 30% increase in sales, that is Rs. 15,00,000 annually. Advice the firm regarding the adoption of new credit policy, assuming that the firm's required rate of return is 25%.

SECTION – B

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

8. Discuss the Walter's Dividend Model with assumptions and criticisms.

9. A company requires Rs. 50 lakhs for the installation of a new unit, which would yield a annual EBIT of 10 lakhs, it is considering the possibility of issuing equity shares plus raising a debt of 5 lakhs, 20 lakhs, and 30 lakhs. The current market price per share is Rs. 300, which is expected to drop to Rs. 250 per share if the market borrowings were to exceed Rs. 20 lakhs. The cost of borrowings are indicated as follows.

Level of borrowings	Upto Rs. 5 lakhs	Upto Rs. 5 lakhs to 20 lakhs	Above Rs. 20 lakhs
Cost of borrowings	10% per annum	15% per annum	20% per annum

Assuming a tax rate of 30% workout the EPS and the scheme which you would recommend to the company.

10. AL Ltd. wishes to raise additional finance of Rs. 60 lakhs for meeting its investment plans. The company has Rs.12 lakhs in the form of retailed earnings available for investment purposes. The following are the further details,

   a) Debt-Equity ratio : 30:70

   b) Cost of Debt at the rate of 11% (before tax) upto Rs. 6 lakhs and 14% (before tax) beyond that.

   c) Earnings per share : Rs. 30

   d) Dividend payout ratio : 70% of earnings

   e) Expected Growth rate in dividend : 10%

   f) Current market price per share : Rs. 180

   g) The Floatation cost per share : Rs. 18

   h) Company's tax rate is 30%.

   You are required to :

   I) Calculate the post-tax average cost of additional debt.

   II) Calculate the cost of retailed earnings and cost of equity.

   III) Calculate the overall weighted average (after tax) cost of additional finance.

11. Shalimar Ltd. sells its product at a gross profit of 20% at sales. The following information is extracted from the company's annual accounts for the year ended 31st March 2023.

Particulars	Rs.
Sales at 3 months credit	60,00,000
Raw Materials	18,00,000
Wages (paid 1 month in arrears)	12,80,000
Manufacturing expenses (paid two months in arrears)	18,00,000
Administration expenses (paid one month in arrears)	7,50,000
Sales promotion expenses payable half year in advance	3,00,000
Income tax payable quarterly (last instalment due)	6,00,000

The company enjoys one month credit from the suppliers of raw materials and maintains two months stock of raw materials and one month finished goods stock.

Cash balance is maintained at Rs. 2,00,000 as precautionary balance. Assuming a 10% margin, find out the Net working capital requirement of the company.

SECTION – C

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

The Management of P Ltd. is considering to select a machine out of the 2 mutually exclusive machines. The company's cost of capital is 12% and the corporate tax rate for the company is 30%. The details of the machine are as follows,

Particulars	Machine 1	Machine 2
Cost of machine (Rs.)	10,00,000	15,00,000
Expected life (Years)	5	5
Annual income before tax and depreciation (Rs.)	3,45,000	4,55,000

Depreciation is to be charged on straight line basis.

a) Calculate the Net Present Value and Internal Rate of Return for each machine.

b) Advice the Management of P. Ltd. as to which machine they should take up.