(Please write your Exam Roll No.) Exam Roll No. 40380303917

END TERM EXAMINATION

SECOND SEMESTER [MBA] MAY-JUNE 2018

Paper Code: MS-104 **Subject: Financial Management**

(For 2017 Batch only)

Time: 3 Hours **Maximum Marks: 75**

Note: Attempt any five questions. All questions carry equal marks.

Q1 From the following particulars prepare the Balance Sheet of X Ltd.

Current Ratio	2
Working Capital	Rs. 4,00,000
Capital Block to Current Assets	3:2
Fixed Assets to turnover (based on sales)	1:3
Sales Cash/Credit	1:2
Stock Velocity	2 months
Creditors Velocity	2 months
Debtors Velocity	3 months
Capital Block: Net Profit 10% of turnover Reserve 2½% of Turnover	
Debentures/Shares Capital	1:2
Gross Profit Ratio-25% (to sales)	

Q2 (a) What is the time value of money? Why is it considered in financial decisions?

(b) How do changes in the economic environment of the country affect financial decision making of the firms? Illustrate.

Q3 XYZ Ltd. has the following capital structure:

	Rs.
Equity Shares (2,00,000 shares)	40,00,000
10% Preference Shares	10,00,000
9% Debentures	30,00,000
	80,00,000

The share of the company sells for Rs 20. It is expected that next year, the company will pay a dividend of Rs. 2 per share which will grow at 7% per year. Assume a 35% tax rate.

(a) Compute the weighted average cost of capital based on the existing capital structure.

(b) Compute the new weighted average cost of capital if the company raises an additional Rs. 30,00,000 debt by issuing 10% debentures. This would increase the expected dividend to Rs. 3 and leave the growth rate unchanged, but the price of share will fall to Rs. 15 per share.

Q4 Explain the Modigliani and Miller Approach on the capital structure, ignoring corporate incomes taxes. What are its assumptions? Explain how arbitrate process operates with the help of a suitable example.

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Q5 A firm whose cost of capital is 10%, is considering two mutually exclusive projects X and Y, the details of which are:

	Project X	**Project Y**
Investment	43,500	36,000
Cash flow Year 1	10,000	15,000
Cash flow Year 2	12,000	13,000
Cash flow Year 3	13,000	12,000
Cash flow year 4	14,000	10,000
Cash flow Year 5	16,000	10,000
Total Cash Flows	**65,000**	**60,000**

Compute for both the projects;

(a) The Net Present Value at 10% discount rate.

(b) Profitability Index at 10% discount rate.

(c) Internal rate of return.

Use following discount factor table and Annuity table to solve the question:

Discount Factor Table

Year	**10%**	**15%**	**20%**	**25%**	**30%**
1	**.909**	**.870**	**.833**	**.800**	**.769**
2	**.826**	**.756**	**.694**	**.540**	**.592**
3	**.751**	**.658**	**.579**	**.512**	**.455**
4	**.683**	**.572**	**.482**	**.410**	**.350**
5	**.621**	**.497**	**.402**	**.328**	**.269**

ANNUITY VALUE

Year	**10%**	**15%**	**20%**	**25%**	**30%**
5	**3.791**	**3.352**	**2.991**	**2.689**	**2.436**

Q6 (a) State the reasons for conflict in IRR and NPV methods of Capital Budgeting.

(b) What is sensitivity analysis? How does it help in risk analysis in capital budgeting decisions?

Q7 What is dividend policy? Explain the factors influencing the dividend policy of a company?

Q8 Compute Working Capital requirements from the following details:
Budgeted sales: 20,000 units per annum-

	Rs.
Raw Material cost per unit	8
Direct Labour per unit	8
Overhead per unit	2
Total cost per unit	18
Profit per unit	2
Selling price per unit	20

Additional Information:-

(i) Raw material will be carried in stock for 4 weeks and finished goods for 2 weeks.

(ii) On an average, factory processing will take 3 weeks.

(iii) Suppliers provide 6 weeks credit; and

(iv) Debtors are allowed 8 weeks credit.

Assume labour and overhead expenses to accrue evenly throughout the production cycle.

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