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M.B.A.

THEORY EXAMINATION (SEM–II) 2016-17

FINANCIAL MANAGEMENT

Time : 3 Hours *Max. Marks : 70*

Note : Be precise in your answer. In case of numerical problem assume data wherever not provided.

SECTION – A

1. **Explain the following:** **7 x 2 = 14**
   (a) State the objectives of financial management.
   (b) What is modern approach of finance function?
   (c) Calculate the expected rate of return for security from the following information"
   $R_t = 10\%$, $R_m = 18\%$, $\beta_1 = 1.35$
   (d) What are the contingent investments?
   (e) What is profitability index?
   (f) What are the measures of financial leverage?
   (g) A firm's sales, variable costs and fixed cost amount to Rs. 75,00,000, Rs. 42,00,000 and Rs. 6,00,0000 respectively. It has borrowed Rs. 45,00,000 at 9% and its equity capital totals Rs. 55,00,000. What is the firms ROI?

SECTION – B

2. **Attempt any five of the following questions:** **5 x 7 = 35**
   (a) "Finance is the lifeblood of industry". Elucidate this statement with suitable examples.
   (b) What is CAPM? Discuss about the assumptions and limitations of CAPM.
   (c) An investor holds two equity shares X and Y in equal proportion with the following risk and return characteristics:
   $E(R_x) = 24\%$; $E(R_y) = 19\%$, $\sigma_x = 28\%$, $\sigma_y = 23\%$
   The returns of these securities have a positive correlation of 0.6. you are required to calculate the portfolio return and risk. Further , suppose the investor wants to reduce the portfolio risk to 15%. What should be the correlation coefficient to bring the portfolio risk to the desired level?
   (d) A project will cost Rs. 40,000. Its steam of earnings before depreciation, interest and taxes during first year through five years is expected to be Rs. 10,000, Rs. 12,000, Rs. 14,000, Rs. 16,000 and Rs. 20,000. Assume a 50% tax rate and depreciation on straight-line basis. Calculate the project's ARR.
   (e) A company has estimated that for a new product its selling price is Rs. 14 per unit, variable cost is Rs. 9 per unit and fixed cost is R.s 10,000. Calculate the operating leverage for sales volume of 3000 units and 4000 units. Also comment on the calculation of operating leverage.
   (f) Explain how nature of business, market conditions and technology affect a firm's working capital requirements.
   (g) From the following particulars of XYZA Ltd. You are required to determine the working capital requirement:
      (i) **Average amount locked up in stocks:**

Stocks of raw materials		Rs. 20,000 p.a.
Work-in-progress		Rs. 4,000 p.a.
Stock of finish goods		Rs. 30,000 p.a.

      (ii) **Credit period allowed to customers:**

Home market	2 weeks	Rs. 2,60,000

	Foreign Market	6 weeks	Rs. 6,24,000
(iii)	**Log in payment:**		
	For purchase	4 weeks	Rs. 1,56,000
	For wages	2 weeks	Rs. 2,08,000
	For management Exp.	1 week	Rs. 78,000

You may add 10% to allow for contingencies.

(h) How do high payout and low payout policies affect future earnings, dividends and growth?

SECTION – C

Attempt any two of the following questions: **2 x 10.5 = 21**

3. "Sound financial management is a key to progress for corporations". Explain and also discuss the important of financial management.

4. What are the assumptions of MM'S dividend irrelevance arguments?

5. M/s Deepika Ltd. has a share capital of Rs. 10,00,000 divided into 1,00,000 equity shares of Rs. 10 each, fully paid. It has a major expansion progrmme requiring an investment of another Rs. 5,00,000. The management is considering the following alternatives for raising this amount:

(i) Issue of 50,000 equity shares of Rs. 10 each.

(ii) issue of 50,000, 12% preference shares of Rs. 10 each.

(iii) issue of 10% debentures of Rs. 5,00,000

The company's present earnings before interest and taxes (EBIT) are Rs. 4,00,000 p.a. You are required to calculate the effect of each of the above modes of financing on the EPS (earning per share), and suggest the best alternative if

(i) EBIT continues to be the same even after expansion,

(ii) EBIT increases by Rs. 1,00,000

Assume tax rate at 50%