



**RF-4294**

**CP-202 MBA (FT) Sem. II & CP-202 MBA (EVE.)**

**(Sem. II) (ATKT) Examination**

**April / May – 2010**

**Financial Management**

*(Old Course)*

Time : 3 Hours]

[Total Marks : 100

**Instructions :**

(1)

|  |                               |
|--|-------------------------------|
| नीचे दृष्टावेळ निशानीवाणी विगतो उत्तरवडी पर अवश्य वपवी.<br>Fillup strictly the details of signs on your answer book. | Seat No. :                    |
| Name of the Examination :  | <input type="text"/>          |
| CP-202 MBA (FT) Sem. II & CP-202 MBA (EVE.) (Sem. II) (ATKT)   | <input type="text"/>          |
| Name of the Subject :  | <input type="text"/>          |
| Financial Management   | <input type="text"/>          |
| Subject Code No. : 4 2 9 4   | Section No. (1, 2,.....): 1&2 |
| Student's Signature  |                               |

- (2) Answers to Section I and Section II must be written in two separate answer books.
- (3) Each section carries 50 marks.
- (4) Maximum marks of each question are indicated at the right hand side of the question.
- (5) Question No. 1 and Question No. 6 are compulsory.
- (6) Attempt any two questions from question no. 2,3,4, and 5 in Section I and attempt any two questions from question no. 7,8,9 & 10 in Section II.
- (7) Show working as part of your answer.
- (8) Use of your own non-programmable calculator is permitted.
- (9) PVIF, PVIFA, FVIF and FVIFA tables will be provided on demand.

**SECTION-I**

- 1 (a) The earnings of a company have been growing at 14 percent over the past several years and are expected to increase at this rate for the next seven years and thereafter, at 9 percent in perpetuity. It is currently

earning Rs. 4 per share and paying Rs. 2 per share as dividend. What shall be the present value of the share with a discount rate of 12 percent for the first seven years and 10 percent thereafter?

- (b) Describe the close relationship between finance and economics and explain why the finance manager should possess a basic knowledge of economics. **6**
- 2** An investor deposits Rs. 100 in a bank account for 5 years at 8 percent interest. Find out the amount which he will have in his account if interest is compounded annually, semi-annually, quarterly and monthly. **15**
- 3** The following information has been extracted from the balance sheet of Surat Fashions Ltd. as on 31.12.2010. **15**
- |                      |                         |
|----------------------|-------------------------|
| Equity Share capital | Rs. 4,00,00,000         |
| 12% Debentures       | Rs. 4,00,00,000         |
| 18% Term Loan        | Rs. 12,00,00,000        |
| <b>Total</b>         | <u>Rs. 20,00,00,000</u> |
- (a) Determine the weighted average cost of capital of the company. It had been paying dividends at a consistent rate of 20% per annum.
- (b) What difference will it make if the current price of the Rs. 100 share is Rs. 160?
- (c) Determine the effect of income tax on the cost of capital under both the premises. (Tax rate is 40%).
- 4** Discuss the main sources of working capital finance giving special emphasis on the various forms of working capital advance by banks and the kind of security required by them. **15**
- 5** Discuss in detail the various sources of Long Term Finance. **15**

## SECTION - II

- 6 (a) A company is considering an investment proposal 14  
to install new milling controls. The project will cost  
Rs. 50,000. The facility has a life expectancy of 5 years  
and no salvage value. The company tax rate is 55%.  
The firm uses straight line depreciation method. The  
estimated profit before depreciation and tax from the  
proposed investment are as follows : Compute payback  
period, ARR, NPV @ 10% and IRR.

| Year | Profit |
|------|--------|
| 1    | 10,000 |
| 2    | 11,000 |
| 3    | 14,000 |
| 4    | 15,000 |
| 5    | 25,000 |

- (b) A firm has sales of Rs. 10,00,000, variable cost of 6  
Rs. 7,00,000 and fixed costs of Rs. 2,00,000 and debt  
of Rs. 5,00,000 with 10% rate of interest. Find the  
operating, financial and combined leverages.
- 7 A factory requires 1500 units of an item per month 15  
each costing Rs. 27. The cost per order is Rs.150 and the  
inventory carrying charges work out to 20% of the average  
inventory.
- (a) Find out the EOQ, the number of orders per year and  
the frequency of orders.
- (b) Would you accept a 2% discount on the minimum  
supply of 1200 units per order? Compare the total costs  
in both the cases.

- 8 From the following projections of XYZ Ltd. for the next 15  
year, you are required to work out the working capital  
required by the company.

|   |               |
|---|---------------|
| Annual Sales .....                                      | Rs. 14,40,000 |
| Cost of production including depreciation, 120000 ..... | 12,00,000     |
| Raw material purchases .....                            | 7,05,000      |

|  |          |
|--|----------|
| Monthly expenses .....                           | 30,000   |
| Anticipated opening stock of raw materials ..... | 1,40,000 |
| Anticipated closing stock of raw materials ..... | 1,25,000 |

**Inventory norms :**

|                               |    |
|-------------------------------|----|
| Raw Material (month) .....    | 2  |
| Work in progress (days) ..... | 15 |
| Finished goods (month) .....  | 1  |

The firm enjoys a credit of 15 days on its purchases, and allows 1 month's credit on its supplies. The company has received an advance of Rs. 15,000 on sales orders.

You may assume that production is carried on evenly throughout the year, and the minimum cash balance desired to be maintained is Rs. 10,000.

- 9** Describe the Traditional view on the Optimum Capital Structure. Compare and contrast this view with the NOI approach and the NI approach. **15**
- 10** Write short notes on : (any two) **15**
- (a) Leasing and Hire Purchase
  - (b) Capital Asset Pricing Model
  - (c) Money Market and Capital Market
  - (d) Indian financial system

