AC-5509

AC-5509

M. B. A. (Full Time) (Sem. II) & M. B. A. (EVE.) (Sem. - II) (CBCS) Examination

April / May – 2015

CP - 202 : Financial Management

Time : 3 Hours] [Total Marks : 70

Instructions :

(1)

નીચે દર્શાવેલ ☛ નિશાનીવાળી વિગતો ઉત્તરવહી પર અવશ્ય લખવી.
Fillup strictly the details of ☛ signs on your answer book.

Name of the Examination :

☛ M.B.A. (Full Time) (Sem. II) & M.B.A. (EVE.) (Sem. - II) (CBCS)

Name of the Subject :

☛ CP - 202 : Financial Management

☛ Subject Code No. : 5 5 0 9 ☛ Section No. (1, 2,.....) : Nil

Seat No. :

Student's Signature

(2) All the questions carry 14 marks.

(3) Question No. 1 and 7 is compulsory.

(4) Attempt any three question from question No. 2,3,4,5,6.

(5) Show working as a part of your answer.

1\.

a) What are the advantages and disadvantages of discounting v/s non-discounting techniques of capital budgeting.

b) Mr. X is to retire in 11 years. He is considering two schemes offered by a Nationalized Bank. The first one pays him an interest rate of 6% per annum. The second scheme will pay him Rs. 1,500 per annum perpetually beginning from the end of 12 years, if he deposits at the end of every year Rs. 2,000 till he retires. Which scheme he should opt for?

2\. The XYZ Ltd. currently pays a dividend of Rs.2 per share. The table given below shows the growth rate of dividend and investor's required rate of return for years 1 to 7.

Year	Growth	Investor's Required Rate of Return
1	13%	11%
2	11%	12%
3	11%	10%
4	9%	13%
5	12%	8%
6	14%	9%
7	10%	11%

How much should be paid for the stock if it is to be purchased now?

3. IDBI, in its issue of Flexibonds-3, offered Growing Interest Bond. The interest will be paid to the investors every year at the rates given below and the minimum deposits is Rs. 5,000.

Year	Interest (p.a.)
1	10.50%
2	11.00%
3	12.50%
4	15.25%
5	18.00%

Calculate the yield to maturity.

4. ABC Ltd. Is considering the following credit policy alternatives:

Particulars	Existing Policy	Option I	Option II
Credit Period (days)	30	41	60
Sales (Rs. Lakhs)	10,000	6.60	12.00
Bad debt (% of sales)	5.0	3.33	6
Cost of credit administration	0.20	0.12	0.25
Average effective collection period	45	51	72

The average effective collection period differs from the credit period as well as debtors do not strictly adhere to the condition stipulated. The company achieves a contribution of 40% on sales and the firm requires a 20% per annum return on investment. You are required to suggest which credit period is more suitable to the company. Do you have any further suggestions to make to the management in the contest of your finding?

5. Calculate the operating leverage and financial leverage under situations A, B and C and financial plans 1, 2 and 3 respectively from the following information relating to the operation and capital structure of X, Y, Z Ltd. Also find out the combinations of operating and financial leverage which gives the highest value and the least value.
Installed capacity (units): 1200
Actual Production and sales (units): 800
Selling Price per unit (Rs.): 15
Variable Cost per unit (Rs.): 10
Fixed Cost (Rs.):
Situation A: 1000, Situation B: 2000, Situation C: 3000

Particulars	Financial Plan		
	I	II	III
Equity (Rs.)	5000	7500	2500
Debt(Rs.)	5000	2500	7500
Cost of debt(for all plans) (%)	12%		

6. A company is considering two mutually exclusive projects. Both require initial cash outlay of Rs. 10,000 each and have a life of 5 years. The company required rate of return is 10% and pays tax at 50%. The projects will be depreciated on straight line basis. The before tax cash flows expected to be generated by the projects are as follows:

	BEFORE TAX CASH FLOWS [RS.]	
Year	PROJECT A	PROJECT B
0	-10,000	-10,000
1	4000	6000
2	4000	3000
3	4000	2000
4	4000	5000
5	4000	5000

Calculate for each project:
a) The payback
b) The accounting rate of return
c) The net present value and profitability index and
d) The internal rate of return
Which project should be accepted on the basis of overall ranking?

7. Write short note on any two of the following:
a) Activity Based Costing(ABC) Analysis
b) Degree of Operating and Financial Leverage
c) Factors affecting dividend policy of the firm
d) Dividend Irrelevance: Miller Modigliani Model