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

END TERM EXAMINATION

SECOND SEMESTER [MBA] MAY JUNE-2014

Paper Code: MS104	Subject: Financial Management

Time : 3 Hours Maximum Marks :60

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

Q1 (a) Evaluate Wealth Maximization objective of Financial Management.
(b) What are the main functions of the modern Finance Manager? How do they differ from those of the traditional Finance Manager? (4+8)

Q2 (a) Explain the concept of "Time Value of Money". (4)
(b) With the following ratios and further information given below, prepare a Trading Account, Profit and Loss Account and a Balance Sheet of Shri Naman. (8)

Gross Profit Ratio	25%
Net Profit/Sales	20%
Stock Turnover Ratio	10
Net Profit/Capital	1/5
Capital to Total Liabilities	½
Fixed Assets/Capital	5/4
Fixed Assets/Total Current Assets	5/7
Fixed Assets	Rs. 10,00,000

Q3 What do you understand by Fund Flow Analysis? What is its importance? Explain the procedure of preparing:
(i) Schedule of changes in working capital
(ii) Calculation of funds from operations
(iii) Fund Flow Statement (12)

Q4 (a) Explain "Arbitrage Process" under Modigliani-Miller theorem. (4)
(b) A company needs Rs. 31,25,000 for the construction of plant. The following three plans are feasible: (8)
(i) The Company may issue 3,12,500 equity shares at Rs. 10 per share.
(ii) The Company may issue 1,56,250 equity shares at Rs. 10 per share and 15,625 debentures of Rs. 100 denomination bearing an 8% rate of interest.
(iii) The Company may issue 1,56,250 equity shares at Rs. 10 per share and 15,625 preference share of Rs. 100 per share bearing an 8% rate of dividend.
(a) If the Company earnings before interest and taxes are Rs. 62,500, Rs. 1,25,000, Rs. 2,50,000 Rs. 3,75,000 and Rs. 6,25,000. What are the earnings per share under each of three financial plans? Assume a Corporate Income Tax of 40%.
(b) Which alternative would you recommend and why?

Q5 (a) Differentiate between Explicit Cost and Implicit Cost of Capital. (4)
(b) A Limited company has the following capital structure:

	Rs.
Equity Share Capital (2,00,000 Shares)	40,00,000
6% Preference shares	10,00,000
Debentures	30,00,000
	80,00,000

The market price of the company's equity share is Rs. 20. It is expected that company will pay a current dividend of Rs. 2 per share which will grow at 7 percent forever. The tax rate may be presumed at 50%. You are required to compute the following:
(i) A weighted average cost of capital based on existing capital structure.
(ii) The new weighted average cost of capital if the company raises an additional Rs. 20,00,000 debt by issuing 10% debentures. This would result in increasing the expected dividend to Rs. 3 and leave the growth rate unchanged but the price of share will fall to Rs. 15 per share. (8)

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MS-104

Q6 What is Working Capital? What are the factors which influence the need of working capital in an organization? **(12)**

Q7 (a) Explain briefly the meaning of sensitivity analysis. **(4)**

(b) A firm can make investment in either of the following two projects. The firm anticipate its cost of capital to be 10% and the net (after tax) cash flows of the projects for five years are as follow: **(8)**

(Figure in Rs. '000)

Year	0	1	2	3	4	5
Project-A	(500)	85	200	240	220	70
Project-B	(500)	480	100	70	30	20

The discount factors are as under:

Year	0	1	2	3	4	5
PVF (10%)	1	0.91	0.83	0.75	0.68	[illegible]
PVF (20%)	1	0.83	0.69	0.58	0.48	[illegible]

Required:-

(i) Calculate the NPV and IRR of the project.

(ii) State with reasons which project you would recommend.

Q8 Write the short notes on **any three** of the following: **(3x4=12)**

(a) International Capital Budgeting Decisions

(b) Operating Cycle

(c) Global Depository Receipt

(d) Decision Tree
