(Please write your Exam Roll No.) Exam Roll No. 01415203914

END TERM EXAMINATION

SECOND SEMESTER [MBA] MAY-JUNE 2015

Paper Code: MS-104	Subject: Financial Management
Time: 3 Hours	Maximum Marks: 60

Note: Attempt any five questions.

Q1 (a) Gross profit (20% on sales) Rs.60,000
Share holder's equity Rs.50,000
Credit sales to total sales 80%
Total asset turnover ratio 3 times
Inventory turnover ratio (to cost of sales) 8 times
Average collection period (a 360 day year) 18 days
Current ratio 1.6
Long term debt to equity 40%
Calculate the amount of debtors and creditors. (7)

(b) Compute the earnings per share for MM Ltd:-
Return on investment 11%
Number of outstanding equity shares 1,00,000
Net worth Rs.25 lakhs
Total debt Rs.40 lakhs
Average cost of debt 10%
Applicable tax rate 30%
Are there any limitations of EPS in financial decision-making? (5)

Q2 (a) Consider the following information regarding ABC Industries Ltd.

Earnings of the company	Rs. 12,00,000
Dividend paid	Rs. 6,00,000
No. of shares outstanding	1,20,000
P/E ratio	8
Return on investment	15%

Using Walter's model, by how much amount should the price of the company's share increase so that it is maximized? What is the optimal dividend-payout ratio for ABC Industries Ltd.? (4)

(b) "Payment of dividend does not affect the value of the firm according to MM." Comment. (8)

Q3 (a) Internal funds are cheaper to firm vis-à-vis external funds. Comment. (2)
(b) IRR does not change with the change in the cost of capital and hence can be regarded as a superior criterion to NPV. Do you agree? (5)
(c) Wealth maximisation is superior to other goals in context of financial decision. Comment. (5)

Q4 Explain the various methods of incorporating risk in cash flows while examining the feasibility of projects. (12)

Q5 The management of AM Machineries Ltd. is considering an investment project costing Rs.1,50,000 and it will have a scrap value of Rs.10,000 at the end of its 5 years life. Transportation charges an installation charges are expected to be Rs.5,000 and Rs.25,000 respectively. If the project is accepted, a spare part inventory of Rs.10,000 must also be maintained. It is estimated that the spare parts will have an estimated scrap value of

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60% of their initial cost after 5 years. Annual revenue from the project is expected to be Rs.1,70,000, and annual labor, material and maintenance expenses are estimated to be Rs.15,000, Rs.50,000 and Rs.5,000 respectively. The depreciation and taxes for five years are as follows:

Year	Depreciation (Rs.)	Tax (Rs.)
1	72,000	11,200
2	43,200	22,720
3	32,400	27,040
4	21,600	31,360
5	800	39,680

What is the NPV of the project, if discount rate is 20%? Also compute the IRR of the project and comment on results. **(12)**

Q6 (a) The following is the information taken from the books of a manufacturing concern. Compute the net operating cycle.

Period covered	365 days
Average period of credit allowed by suppliers	16 days
	(Rs in '000)
Average debtors outstanding	480
Raw Materials consumption	4,400
Total production cost	10,000
Total cost of goods sold	10,500
Sales for the year (All credit sales)	16,000
Value of average stock maintained:	
Raw materials	320
Work-in-progress	350
Finished goods	260

(7)

(b) What is leverage? What is the use of leverage in financial decision-making? **(5)**

Q7 Briefly describe **any three** of the following: **(4x3=12)**

(a) Relationship between net working capital, technical solvency and risk

(b) Du Pont Analysis

(c) Gearing Ratio

(d) Cash Flow Statement and its interpretation (AS-3)

Q8 Briefly explain the Modiglinai-Miller(MM) hypothesis to capital structure of companies. Do you think that it is relevant in context of Indian companies in the current scenario? **(12)**

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