MBAC 2001/MBLC 1003

M.B.A. DEGREE EXAMINATION,
DECEMBER 2016/JANUARY 2017.

First Year — Second Semester

General

FINANCIAL MANAGEMENT

Time : Three hours Maximum : 100 marks

SECTION A — (5 × 6 = 30 marks)

Answer any FIVE questions.

1. What is cost of capital? Explain the significance of Cost of Capital.

2. Distinguish between Net Present Value (NPV) and Internal Rate Return (IRR) of method in capital budgeting.

3. A company has sales of Rs. 1 lakh. The variable costs are 40% of the sales while the fixed operating costs amount to Rs. 30,000. The amount of interest on long-term debt is Rs. 10,000.

   You are required to calculate the composite leverage and illustrate its impact if sales increase by 5%.

4. Write short notes on Walters approach to Dividend policy.

5. What are the factors influencing working capital requirement in an Organisation?

6. Explain the types of Leverage. State their significance.

7. From the following information, extracted from the books of a manufacturing company, compute the operating cycle in days and the amount of working capital required :

Period covered	365 days
Average period of credit allowed by suppliers	16 days
	(Rs. in '000)
Average Total of Debtors Outstanding	480
Raw Material Consumption cost	4,400
Total production Cost	10,000
Total cost of sales	10,500
Sales for the year	16,000
Value of Average stock maintained:	
Raw Material	320
Work-in-progress	350
Finished goods	260

(f) No increase either in cost of inputs or selling price is envisaged.

Prepare a projected profitability statement and the working capital requirement at the new level, assuming that a minimum cash balance of Rs. 19,500 has to be maintained.

SECTION C — (1 × 20 = 20 marks)

(Compulsory)

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

Figures 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	0.62
PVF (20%)	1	0.83	0.69	0.58	0.48	0.41

Required

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

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

(c) Explain the inconsistency in ranking of two projects.

8. Each of the following projects requires a cash outlay of Rs.10,000. You are required to suggest which project should be accepted if the standard payback period is 5 years.

Year	Cash Inflows		
	Project X (in Rs.)	Project Y (in Rs.)(in	Project Z Rs.)
1	2,500	4,000	1,000
2	2,500	3,000	2,000
3	2,500	2,000	3,000
4	2,500	1,000	4,000
5	2.500	–	–

SECTION B — (5 × 10 = 50 marks)

Answer any FIVE questions.

9. What is optimum capital structure? Explain the different types of Capital Structure theories.

10. "Wealth maximisation is redefined as value maximization" — comment.

11. What is Capital Budgeting? Why is it necessary? What are its essential features?

12. Explain the different forms of dividend.

13. Following are the details regarding three companies :

A Ltd.	B Ltd.	C Ltd
r = 15%	r = 10%	r = 8%
k = 10%	k = 10%	k = 10%
E = Rs.10	E = Rs.10	E = Rs.10.

You are required to calculate the effect of dividend payment on the profits of each of the above companies under the following different situations :

(a) When no dividend is paid;

(b) When dividend is paid at Rs. 4 per share;

(c) When dividend is paid at Rs. 8 per share;

(d) When dividend is paid at Rs. 10 per share.

14. Calculate the degree of Operating Leverage, Degree of Financial leverage and the Degree of Combined Leverage for the following firms and interpret the results :

	P	Q	R
Outputs (Units)	3,00,000	75,000	5,00,000
Fixed costs (Rs.)	3,50,000	7,00,000	75,000
Unit Variable cost (Rs.)	1.00	7.50	0.10
Interest Expenses (Rs.)	25,000	40,000	Nil
Selling price (Rs.)	3.00	25.00	0.50

15. What are the different sources of Working Capital requirement of an Organization?

16. Food Ltd. Is presently operating at 60% level producing 36,000 packets of snack food and proposes to increase capacity utilization in the coming year by $33\frac{1}{3}$% over the existing level of production.

The following data has been supplied :

(a) Unit cost structure of the product at current level :

	Rs.
Raw material	4
Wages (Variable)	2
Overheads (Variable)	2
Fixed Overheads	1
Profit	3
Selling price	12

(b) Raw materials will remain in stores for 1 month before being issued for production. Material will remain in process for further 1 month. Suppliers grant 36 months credit to the company.

(c) Finished goods remain in the godown for 1 month.

(d) Debtors are allowed credit for 2 months.

(e) Lag in wages and overhead payments is 1 month and these expenses accrue evenly throughout the production cycle.