

2010

MASTER OF BUSINESS ADMINISTRATION

[Second Semester Examination]

(Financial Management)

PAPER—202

Full Marks : 100

Time : 3 hours

The figures in the right-hand margin indicate marks

Candidates are required to give their answers in their own words as far as practicable

Illustrate the answers wherever necessary

**Write the answers to questions of each Half
in separate books**

FIRST HALF

[Marks : 50]

(Turn Over)

1. Answer any *four* questions from the following : 5x

- (a) X. Co. Ltd. issues 16% redeemable debentures of Rs. 100 each at a premium of 1%. These debentures are redeemed after 3 years at a premium of 5%. Corporate tax rate is 50%. Interests on debentures are paid annually at the end of each year. Calculate cost of debentures.
- (b) Write a short note on 'time value of money'. What is the difference between the Present value table and Annuity table? 3+
- (c) Give the revision of the 'shareholders' wealth maximization' concept when agency factor is taken into consideration.
- (d) What is a warrant? How does it differ from convertible securities? 2+
- (e) The following data are available for Dhar & Co. Ltd. :

Installed capacity	40000 units
Actual production & sales	75% of capacity
Variable cost per unit	Rs. 20

Selling price per unit	Rs. 28
Fixed cost	Rs. 80,000
Long term debt	Rs. 5,00,000
Cost of Long term debt	12%
Equity share capital (Rs. 10 each)	Rs. 4,00,000
Tax rate	50%

Calculate DOL, DFL and DCL of the company. . 5

(f) What do you mean by Business Risk ? Name the measure generally used in assessing business risk of a business firm. 3 + 2

2. Answer any *two* questions from the following : 10 × 2

(a) (i) Narrate the scope of Finance as a discipline.

(ii) Enumerate the major points of difference between operating lease and financial lease. 5 + 5

(b) Following is the except of balance sheet of a company as at 31st March, 2010 :

1,00,000 equity shares of Rs. 10 each fully paid-up [Market price of these shares as on 31.3.10 is Rs. 45 and on 31.3.13 is expected to be Rs. 55] Rs. 10,00,000

12% preference shares of Rs. 100 each fully paid-up [Issue date : 31.3.10, Redemption date : 31.3.14, Dividends are paid annually at the end of each year, Issue at par but redemption at 5% premium] Rs. 3,00,000

14% debentures of Rs. 100 each fully paid-up [Issue date : 31.3.09, Redemption date : 31.3.13, Interests are paid annually at the end of each year, Issue at a discount of 1% but redemption at par] Rs. 2,00,000

General reserve Rs. 5,00,000

Cost of equity shares is to be calculated on an assumption of equity holding for 3 more years from the valuation date. Current year's dividend rate is 20% which is expected to grow annually @ 10%. Calculate overall cost of capital on the basis of book value weights.

(c) The following data are available for A Ltd. and B Ltd. relating to the financial year ended 31st March, 2010 :

<u>Particulars</u>	<u>A Ltd.</u>	<u>B Ltd.</u>
Variable expenses as a percentage of Sales	66.67	75
Interest expenses (Rs.)	200	300
Degree of Operating Leverage	5	6
Degree of Financial Leverage	3	4
Income-tax rate	35%	35%

Prepare the income statements of A Ltd. and B. Ltd. for the year ended 31st March, 2010 and also make necessary comments on the financial position of these companies. 6 + 4

[*Internal Assessment*—10 Marks]

SECOND HALF

[Marks : 50]

3. Answer any *four* questions from the following : 5 x

(a) State the recommendations of Tandon Committee regarding maximum permissible bank finance to be provided to the business concern by financial institution.

(b) The following information is available for XYZ Corporation :

(i) Rate of return on investments : 20%

(ii) Rate of return expected by
share holders : 15%

(iii) Earning per share : Rs. 6

What will be the price per share as per Walter's Model (I) if pay out ratio is 40% and (II) if pay out ratio is 70%? Interpret the results. 4 +

(c) Distinguish between fixed working capital and fluctuating working capital.

- (d) "The discounted cash flow methods in evaluating long term investment decision are superior to the non-discounted methods." Explain. 5
- (e) Numerically illustrate the Net Income approach to capital structure decision. 5
- (f) State the importance of cost of capital in capital structure decision. 5
4. Answer any *two* questions from the following : 10×2
- (a) State the important factors that affect dividend policy of a firm. 10
- (b) (i) AB Corporation currently provides 45 days credit to its customers. Its present sales are Rs. 60 lakh. The firm's cost of capital is 13% and ratio of variable cost to sales is 10%. The company intends to extend its credit period to 60 days. Such an extension is likely to push sales up by Rs. 20 lakhs. Examine whether such extension proposal is worth while. [Ignore tax rate]

(ii) Mention the vital factors associated with receivable management. 74

(c) A company has an investment proposal costing Rs. 1,00,000 with the following expected net cash flows (after tax and depreciation) :

<u>Year</u>	<u>Net cashflow (Rs.)</u>
1	18,000
2	20,000
3	20,000
4	22,000
5	10,000

The estimated life of the project is 5 years. The company uses straight line method of depreciation. The tax rate applicable to the company is 50%. Calculate

(i) Pay-back period,

(ii) Net present value at 12% discount rate,

(iii) Profitability Index at 12% discount rate,

(iv) Internal rate of return. 2 + 3 + 2 + 3

Note : P.V. of Re 1 at 12% discount rate are
as follows :

Year	:	1	2	3	4	5
P.V. of Re 1:		.893	.797	.712	.636	.567

[*Internal Assessment*—10 Marks]
