

DECEMBER - 2011
VIDYASAGAR UNIVERSITY (MBA)
DISTANCE LEARNING
[2ND SEMESTER]
FINANCIAL MANAGEMENT
Paper – CP - 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 par as practicable.

Illustrate the answers wherever necessary.

Write the answers to Questions of each Half in separate books.

FIRST HALF

(Marks : 50)

- 1. Answer any four questions : **5X4****
- (a) Briefly explain the important roles of a Financial Manager. 5
- (b) Write a short note on ‘Agency Problem’. 5
- (c) Briefly explain the concept of ‘Time Value of Money’. 5
- (d) Write a short note on convertibles. How does it differ from warrant ? 2+3
- (e) Mention the criteria of issuing ‘ Commercial Paper’. 5
- (f) Distinguish between operating Risk & Financial Risk. 5
- 2. Answer any two questions : **10X2****
- (a) Calculate operating, Financial and combined leverage under situations when Fixed costs are (a) Rs. 5,000 and (b) Rs.10,000 for financial plans 1 and 2 Respectively from the following information pertaining to the operation and capital structure of a leather manufacturing company.
- | | |
|-----------------------------------|-----------|
| Total Assets | Rs.30,000 |
| Total Assets Turnover | 2 |
| Variable cost as percent of sales | 60 |

Capital Structure	Financial Plan	
	I	II
Equity	Rs. 30,000	Rs. 10,000
10% Debentures	10,000	30,000

10

(b) (i) Discuss the approach to determine the cost of retained earnings. Also explain the rationale behind treating retained earnings as a fully subscribed issue of equity Shares.

(ii) What is weighted average cost of Capital ?

(3+4)+3

(c) Write short noted (any two)

5X2

(i) Cost of Debt financing.

(ii) Financial leverage.

(iii) Different sources of finance.

(iv) Wealth Maximization as an objectives of Financial Management.

[Internal Assessment : 10 Marks]

(Second Half)

(Marks : 50)

3. Answer any four questions :

5X4

(a) Describe two capital structure theories which support the existence of an optimal capital structure.

(b) Explain the effects of any two credit policy variables on the profitability of a company.

(c) How is the working capital requirement of a company estimated ?

(d) Explain the factors affecting capital structure of a company.

- (d) You are considering an investment in a project with a life of eight years, an initial outlay of Rs. 1,20,000, and annual after-tax cash flows of Rs. 52,000. The project also requires an increase in inventories of Rs. 22,000. This Rs. 22,000 investment in inventory is required at the outset of the project and will be released when the project is completed. The appropriate discount rate for this project is 10 percent. Calculate the discounted payback period for this project.
- (e) Consider the following data for Trident Ltd.

Earning Per Share (EPS)	Rs.7.50
Dividend Payout Ratio	40%
Equity Capitalization Rate	14%
Rate of Return on Investments	15%

If the number of shares outstanding for the firm is 2,50,000. Find the market value of equity according to Walter's Model.

4. Answer any two questions :

10X2

- (a) Chenoy Ltd. Manufactures 850 carpets per year. It sells each carpet for Rs.1,150. Only 15% of its sales are made in cash. The firm incurs a fixed cost of Rs.1,35,000 Per annum and a variable cost of Rs.500 per carpet. It spends Rs.30,000 on advertising. This year the firm invested 25% of its total turnover in the purchase of raw materials. Other information about the firm are following:

(in Rs.'000)

(I)	Opening balance:	
	(i) Raw Materials	50
	(ii) Work-in-process	40
	(iii) Finished goods	95
	(iv) Debtors	105
	(v) Creditors	120
(II)	Opening balance:	
	(i) Raw Materials	55
	(ii) Work-in-process	65
	(iii) Finished goods	105
	(iv) Debtors	120
		(Contd)
		(in Rs. '000)
	(v) Creditors	80
(III)	Depreciation	45

- (IV)** Selling and Administrative expenses 85
- (i)** Calculate the Operating Cycle.
- (ii)** Discuss the results for each component from the company's point of view. 7+3
- (b)** What are the reasons of conflict of ranking when IRR and NPV are used for evaluation of mutually exclusive projects ? How such conflicts are resolved in practice? 4+6
- (c)** Explain Miller and Modigliani hypothesis on dividend policy. Enumerate the limitations of this hypothesis. 6+4

[Internal Assessment : 10 Marks]

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