Fourth Semester 5 Year B.B.A.,LL.B. Examination, June/July 2012
FINANCIAL MANAGEMENT

Duration : 3 Hours   Max. Marks : 100

Instructions : 1. Answer all **5** questions.
2. **One** essay type and **one** short note question or problem from **each unit** have to be attempted.
3. Figures to the right indicate marks.

UNIT – I

Q. No. 1. (a) Following are the details regarding the capital structure of a company.   Marks : 15

Sources of Capital	Book Value	Market Value	Specific Cost
Debentures	80,000	76,000	10%
Preference shares	20,000	22,000	15%
Equity shares	1,20,000	1,80,000	30%
Retained Earnings	40,000	60,000	15%

You are required to determine the weighted average cost of capital using

a) Book value as weights

b) Mark value as weights.

OR

Following is the capital structure of Reliance Ltd.

1) Equity shares 10,000 of Rs. 10 each.
   Market price Rs.15 each, $K_e = 12\%$.
2) Debentures 10,000 of Rs. 100 each
   Market price Rs. 120 each K_d (after tax) = 11%.

You are required to determine WACC using :

a) Book value as weights and total cost.

b) Market value as weights and total cost.

(b) Write a short note on :
CAPM   Marks : 5

OR

Various sources of capital.

UNIT – II

Q. No. 2. (a) Explain concept of Traditional Approach and MM Approach under capital structure theories. Marks : 15

OR

The management of a firm believes that the cost of equity and debt for different proportions of equity and debt in capital structure are as follows :

Proportion of Equity	Proportion of Debt	Cost of equity K_e	Cost of debt K_d
1.00	0.00	11.0	6.0
0.90	0.10	11.0	6.5
0.80	0.20	11.5	7.0
0.70	0.30	12.5	7.5
0.60	0.40	13.0	8.5
0.50	0.50	14.0	9.5
0.40	0.60	15.0	11.0
0.30	0.70	16.0	12.0
0.20	0.80	18.0	13.0
0.10	0.90	20.0	14.0

Construct a graph in terms of K_d, K_e and K_A based on the above data. What is the optimal structure of the firm ?

(b) Write a short note on :

MM Approach under dividend theory Marks : 5

OR

Types of Dividend Policy.

UNIT – III

Q. No. 3. (a) From the following data compute duration of operating cycle : Marks : 15

Rs.'000

Particulars	Year 1	Year 2
Raw materials	20	27
Work in progress	14	18
Finished goods	21	24
Purchases	96	135
Cost of goods sold	140	180
Sales	160	200
Debtors	32	15
Creditors	16	18

Assume 360 days per year for computation purpose. Draw a reconciliation statement

OR

What is working capital ? What are the different classifications of working capital ? What are the merits and demerits of working capital ?

(b) Write a short note on :

Working Capital Cycle. Marks : 5

OR

Techniques of inventory management.

UNIT – IV

Q. No. 4. (a) Assume that the exchange rate of Rs/US dollar during 0 – 1 year remains unchanged at Rs. 47/\$. For the subsequent 4 years, it is forecasted that the rupee will depreciate vis-a-vis the US dollar by 2 per cent after the first year. As a result, the exchange rates for years 2 – 5 will be as fallows : Marks : 15

Year	2	Rs.	47.94 (Rs. 47 × 1.02)
	3		48.8988 (47.94 × 1.02)
	4		49.8768 (48.8988 × 1.02)
	5		50.8743 (49.8768 × 1.02)

Give the exchange rate of Rs. 47/\$ in year 1, the equivalent rupees of \$ 125.5 million will be (\$ 125.5 million × Rs. 47) = Rs. 5898.5 million. This is the incremental operating CFAT in Indian currency, that the project is expected to generate in all the 5 years (given the assumption of no variation in exchange rates).

Assuming full repatriation every year, with no withholding taxes and full tax credit available in US, advise the US multinational regarding the financial viability of having a subsidiary in India.

OR

Explain various factors which are peculiar to multinational firms.

(b) Write a short note on : Marks : 5

Multinational working capital management.

OR

Management Accounting by Multinational firms.

UNIT – V

Q. No. 5. (a) M Ltd. decides to take over A Ltd., following is the data available. Marks : 15

	M Ltd.	A Ltd.
No. of shares	4,00,000	3,00,000
EPS	10	8
P/E ratio	6	5
MP of shares	60	40

Exchange ratio is 0.8 shares for every share of A Ltd.

Find out :

1) Post Marger EPS
2) P/E ratio
3) MP of shares.

OR

Small Co. is being acquired by large company on a share exchange basis. Their selected data are as follows :

Particulars	Large Co.	Small Co.
PAT	56	21
No. of shares	10	8.4
EPS	5.6	2.5
P/E ratio	12.5	7.5

Calculate the EPS of the surviving firm after the merger. If the P/E ratio falls to 12 after the merger, what is the premium received by the share holders of small company (Using the surviving firm's new price) ?

Is merger is beneficial for large Co's share holders ?

(b) Write a short note on :

Reasons for Merger.

OR

Advantages of Merger. Marks : 5

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Fourth Semester Five Year B.B.A.,LL.B. Examination, January 2012
FINANCIAL MANAGEMENT

Duration : 3 Hours Max. Marks : 100

Instructions : 1. Answer all **5** Questions.
2. Figures to the right indicate marks.

UNIT – I

Q. No. 1. (a) Following are the details of ENKAY Ltd. Marks : 15

Types of capital	Book value	Market value	Specific cost
Debt	4,00,000	3,80,000	5%
Preference capital	1,00,000	1,10,000	8%
Equity shares	6,00,000	12,00,000	15%
Retained earnings	2,00,000	–	13%
	13,00,000	**16,90,000**	

Determine the weighted average cost of capital using :

i) Book value weights ii) Market value weights.

OR

Q. No. 1. (a) Manu Ltd. has the following capital structure :

	₹
Equity share capital	
(2,00,000 share of ₹ 20 each)	40,00,000
6% preference share capital	10,00,000
8% debentures	30,00,000

The market price of equity share is ₹ 20 per share. The company is expected to pay dividend of ₹ 2 per share which will grow at 7%.

P.T.O.

a) Calculate weighted average cost of capital assuming that the company is under 50% tax bracket.

b) Also calculate the new weighted average cost of capital if the company raises an additional ₹ 20,00,000 debt by issuing 10%, debentures. This would result in increase in the expected dividend to ₹ 3 per share and leave the growth rate unchanged, but the market price of the share will come down to ₹15 per share.

Q. No. 1. (b) Write a short note on Sharpe Lintner Model. Marks : 5

OR

Write a short note on empirical evaluation of a model.

UNIT – II

Q. No. 2.(a) Mr. Bean has a company which belong to a risk class for which the appropriate capitalisation rate is 10%. It currently has outstanding 25,000 shares selling at ₹ 100 each. The firm is contemplating the declaration of a dividend of ₹ 5 per share at the end of the current financial year. The company expects to have a net income of ₹ 2,50,000 and has a proposal for making new investments of ₹ 5,00,000. Show that under the MM assumptions, the payment of dividend does not affect the value of the firm. Marks : 15

OR

Q. No. 2. (a) Define "dividend policy" and explain its nature. Explain the types of dividend policy with examples. What are the objectives of dividend policy ?

Q. No. 2. (b) What are the factors that influence the dividend policy ? Marks : 5

OR

Write a short note on traditional proposition of dividend policy.

UNIT – III

Q. No. 3. (a) The board of directors of Ram Engineering Ltd. request you to advise them the average amount of working capital required in the first year's working. You are given the following estimates and are instructed to add 10% to your computed figure to allow for contingencies. Marks : 15

	₹
1) Amount blocked up for stocks	
stock of finished product	7,000
Stock of stores materials	10,000
2) Average credit given	
Inland sales 6 weeks credit	2,08,000
Export sales 1 ½ week credit	78,000
3) Lag in payment of wages and other out	
going wages 2 weeks	2,60,000
Stock of materials etc. 1 ½ month	48,000
Rent Royalties etc. 6 months	10,000
Clerical staff ½ month (ie 0.5 month)	62,400
Manager salary ½ month (ie 0.5 month)	4,800
Miscellaneous expenses 1 ½ months	48,000
4) Payment in advance	
sundry expenses	
(paid quarterly in advance)	8,000
5) Undrawn profit on the average throughout	
the year	13,000

OR

Q. No. 3. (a) Define working capital. What are the different classification of working capital ? What are the merits and demerits of working capital ?

Q. No. 3. (b) Explain any 2 inventory techniques being adopted by business concerns. Marks : 5

OR

Write a short note on working capital cycle.

UNIT – IV

Q. No. 4. (a) A company is considering an investment proposal to install new machine at a cost of Rs. 50,000. The facility has a life of 5 years and no salvage value. The tax rate is 35%. Assume the firm uses straight line depreciation for tax purposes. Marks : 15

Year	CFBT (₹)
1	10,000
2	10,692
3	12,769
4	13,462
5	20,383

Calculate :

a) Payback period

b) ARR

c) IRR

d) NPV @ 10%

e) PI @ 12%

OR

Q. No. 4. (a) XYZ Company Ltd. has got ₹ 20,000 to invest. The following proposals are under consideration.

Project	Initial outlay	Annual cash flow	Life in years
A	10,000	2,500	5
B	8,000	2,600	7

C	4,000	1,000	15
D	10,000	2,400	20
E	5,000	1,125	15
F	6,000	2,400	6
G	2,000	1,000	2

a) Rank these projects in order of their desirability under the pay back period method.

b) Rank these projects under the net present values index assuming the cost of capital to be 10%.

Q. No. 4. (b) What do you understand by a capital budgeting decision ? Why is capital budgeting so important to management ? Marks : 5

OR

Write a short note on managing finance in multinational corporations with examples.

UNIT – V

Q. No. 5. (a) Girish Ltd. acquires Suresh Ltd. for a consideration of Rs. 76,00,000 to be satisfied in the form of fully paid equity shares of ₹ 10 each. The balance sheets of the two companies on 31-12-2010, the date of acquisition were as follows : Marks : 15

Liabilities	Girish	Suresh	Assets	Girish	Suresh
Equity share capital shares of ₹10 each	80,00,000	50,00,000	Sundry Assets	1,92,00,000	1,16,00,000
General reserves	30,00,000	6,00,000			
Development rebate reserve	6,00,000	2,00,000			

Export profit reserve	12,00,000	8,00,000			
P/L Account	24,00,000	18,00,000			
Sundry liabilities	40,00,000	32,00,000			
	1,92,00,000	**1,16,00,000**		**1,92,00,000**	**1,16,00,000**

You are required to pase incorporation journal entries in the books of Girish Ltd. (Transfer Company) when amalgamation is

a) By way of purchase

b) Prepare the balance sheet after amalgamation presuming that the development rebate reserve and export profit reserve are required to be maintained.

OR

Q. No. 5. (a) Priya Ltd. wants to take over Ram Ltd. and the financial details of both the companies are as below.

Liabilities	**Priya**	**Ram**
Equity share capital of ₹ 50 each	10,00,000	5,00,000
Preference share capital	2,00,000	–
Share premium	–	20,000
Profit and loss account	3,80,000	40,000
6% debentures	1,50,000	50,000
Total liabilities	**17,30,000**	**6,10,000**
Assets		
Fixed assets	12,20,000	3,50,000
Current assets	5,10,000	2,60,000
Total assets	**17,30,000**	**6,10,000**
Profit after tax and preference dividend	2,40,000	1,50,000
Market price per share	120	135

You are required to determine the share exchange ratio to be offered to the share holders of Ram Ltd. based on :

a) Net assets value

b) Earnings per share and

c) Market value of share.

Which method would you prefer from Priya Company's point of view ?

Q. No. 5. (b) What are the characteristics of Mergers and Acquisitions ? Marks : 5

OR

Explain the reasons for mergers and acquisitions.

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Fourth Semester Five Year B.B.A., LL.B. Examination, June 2011
FINANCIAL MANAGEMENT (Course – II)

Duration : 3 Hours Max. Marks : 100

Instructions : 1. Answer **all 5** questions.

2. **One** essay type and one short note question or problem from **each** Unit have to be attempted, which is referred as Part (a) and (b) in **all** the Units.

3. Figures to the **right** indicate marks.

UNIT – I

Q. No.1. a) The capital structure of Sun Ltd. is as follows : Marks : 15

Equity share capital	10,00,000
6% Preference share capital	5,00,000
8% Debentures	15,00,000

The company has made a profit of ₹ 25,000. The company is under 50% tax bracket. It has 1000 equity shares of ₹ 100 each and market price of which is ₹ 145 each and the growth in dividend is 8%.

a) Calculate the weighted average cost of capital.

b) Also calculate the new weighted average cost of capital if the company raises an additional ₹ 10,00,000 debt by issuing 10% debentures. This would result in an increase in the expected dividend by ₹ 5 per share, growth rate in dividend has increased to 9% and the market price will come upto ₹ 150 per share.

OR

P.T.O.

Q. No. 1. a) Following is the capital structure of Supermoon Ltd.

Sources	**Amount**	**Specific cost**
Equity shares of ₹ 10 each	25,00,000	12%
Preference shares of ₹ 10 each	10,00,000	10%
10% debentures of ₹ 10 each	15,00,000	5%

Presently debentures are traded in the market at 98%, preference shares at ₹ 12 per share and equity share at ₹ 15 per share. Find out weighted average cost of capital using book value and market value method.

i) Based on weights ii) Based on total cost.

Q. No. 1. b) Explain how an empirical evaluation of a model is done. Marks : 5

OR

Q. No. 1. b) Explain the advantages and limitations of cost of capital.

UNIT – II

Q. No. 2. a) DMK Ltd. has 2,00,000 shares outstanding and is planning to declare a dividend to ₹ 5/- at the end of current financial year. The present market price is ₹ 100. The cost of equity capital K_e may be taken at 10%. Using MM model and assuming no taxes, ascertain the price of the company's share as it is likely to prevail at the end of the year.

i) When dividend is declared and

ii) When no dividend is declared ?

The company expects to have a net income of ₹ 20,00,000 during the year 1 and is planning to make an investment of ₹ 40,00,000 at the end of the year. Also the value of the firm. Marks : 15

OR

Q. No. 2. a) What are the factors that influence dividend policy ?

Q. No. 2. b) Explain traditional proposition V/s M Hypothesis in dividend policy. Marks : 5

OR

Q. No. 2. b) Forms of dividend policy.

UNIT – III

Q. No. 3. a) You are given below the estimates. As a finance manager, set up your calculations for the average amount of the working capital required for the year ending 30-09-2010 after making a provision of 20% for contingencies. Marks : 15

	₹
Stock of finished products	5,000
Stock of stores, materials etc.	10,000
Domestic credit sales – 6 weeks	1,52,000
Export credit sales – 3 weeks	39,000
Lag in payment of wages and other outgoings :	
– Wages – 1.5 weeks	1,30,000
– Cost of materials 1.5 months	24,000
– Rent – 6 months	5,000
– Clerical staff – 0.5 month	31,200
– Manager – 0.5 month	2,400
– Miscellaneous expenses – 1.5 months	24,000
Prepaid sundry expenses – Quarterly	4,000

OR

Q. No. 3. a) What is working capital management ? Explain the factors responsible for working capital management. Marks : 5

Q. No. 3. b) What is the significance of working capital management ? Marks : 5

OR

Q. No. 3. b) What are the different techniques being adopted while managing inventories ? Explain them. Marks : 5

UNIT – IV

Q. No. 4. a) One of the 3 projects of a company is doing poorly and being considered for replacement. The projects A, B, C are expected to require ₹ 2,00,000, each having estimated life of 5, 4 and 3 years respectively. Anticipated cash flows of the projects are given below (after tax) Marks : 15

Year	A	B	C
	₹	₹	₹
1	50,000	80,000	1,00,000
2	50,000	80,000	1,00,000
3	50,000	80,000	10,000
4	5,000	30,000	–
5	1,90,000	–	–

Rank each project applying NPV and pay-back period.

OR

Q. No. 4. a) Shiva Ltd. is planning to invest into a new equipment costing ₹ 80,00,000. The equipment has economic life of 5 years with nil salvage value. The tax rate is 40%, original cost method is used for depreciation.

Year	CFBT (Before dep. and tax)
1	20,00,000
2	30,00,000
3	40,00,000
4	60,00,000
5	50,00,000

Calculate :

1) Payable period
2) NPV @ 15%
3) ARR
4) IRR
5) BCR @ 15%.

Q. No. 4. b) Brief the financial management of multinational corporations. Marks : 5

OR

Q. No. 4. b) Explain factors determining capital structure of a multinational corporation.

UNIT – V

Q. No. 5. a) Rakesh Ltd. is absorbed by Nitin Ltd. given below are the balance sheets of two companies as on 31-12-2010. Marks : 15

Liabilities	**Rakesh**	**Nitin**	**Assets**	**Rakesh**	**Nitin**
Share capital			Cash in hand	1,750	14,000
4500 shares (equity)			Land and		
of ₹ 135 each	6,07,500	–	Building	5,42,500	11,78,500
20000 Equity shares	–		Plant and		
of 75 each	–	15,00,000	Machinery	3,00,000	10,00,000
General reserves	2,01,750	6,42,500			
Profit and loss A/c	7,500	17,500			
Creditors	27,500	32,500			
	8,44,250	**21,92,500**		**8,44,250**	**21,92,500**

The holder of every 3 shares in Rakesh Ltd. was to receive five shares in Nitin Ltd.

You are required :

1) Pass the closing journal entries and prepare the necessary ledger account.

2) Pass the incorporation journal entries.

3) Prepare the Balance Sheet after amalgamation.

OR

Q. No. 5. a) What is the difference between merger and amalgamation ?

Kiran company wishes to take over Sharad company. The financial details of the two companies are as under :

Liabilities	**Kiran**	**Sharad**
15% debentures	75,000	25,000
Profit and loss account	1,90,000	20,000
Share premium account	–	10,000
Equity shares of ₹ 50/share	5,00,000	2,50,000
Preference shares	1,00,000	–
Total liabilities	**8,65,000**	**3,05,000**
Assets		
Current assets	2,55,000	1,30,000
Fixed assets	6,10,000	1,75,000
Total assets	**8,65,000**	**3,05,000**

	Kiran	Sharad
Annual profit available for equity shareholders after tax and preference dividend	1,20,000	75,000
Market price/equity share	100	130

What offer do you think that the Kiran company could make to Sharad company in terms of exchange ratio based on :

1) Net assets value
2) Earnings per share and
3) Market value of share.

Which method would you prefer from Kiran Company's point of view ?

Q. No. 5. b) Explain different methods of mergers along with examples. Marks : 5

OR

Q. No. 5. b) Explain different types of mergers along with examples.