



**Fourth Semester Five Year B.B.A., LL.B. Examination, June 2013**  
**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, which is referred as Part (a) and Part (b).
  3. Figures to the **right** indicate marks.
  4. **Use** simple calculators only.

UNIT – I

- Q. No. 1. (a) The Ganga Company is planning to expand its business and accordingly the company desires to increase assets by 50% by the end of the year 2012. The existing capital structure representing the optimum capital structure of the company as given below :

Marks : 15

<b>Particulars</b>	<b>Rs.</b>
8% Debentures (Par value Rs. 1,000 per debenture)	4,00,000
9% Preference shares (Par value of Rs. 100 per share)	1,00,000
Equity shares (Par value of Rs. 100 per share)	5,00,000
	<b>10,00,000</b>

New debentures can be sold at par at 10% interest rate. Preference shares will have a 12% dividend rate and can be sold at par. Equity shares can be sold to net Rs. 90 per share. The shareholder's required rate of return is 8% which is expected to grow at 4%. Retained earnings for the year are estimated to be Rs. 50,000.

You are required to compute the cost of individual capital components and the overall cost of capital.

OR

P.T.O.



From the following information compute WACC based on weights as book value and market value.

Sources of Funds	Face value	Market value
Debentures	100	110
Preference shares	100	120
Equity shares	10	22

- (b) Write a short note on : Marks : 5  
 Cost of Equity and Preference shares.  
 OR  
 CAPM.

#### UNIT – II

- Q. No. 2. (a) Explain various factors affecting dividend policy. Marks :15  
 OR  
 Explain Traditional and Modigliani propositions under capital structure theories.

- (b) Write a short note on : Marks : 5  
 Types of dividend policies.  
 OR  
 Factors affecting capital structure theories.

#### UNIT – III

- Q. No. 3. (a) Explain advantages and disadvantages of working capital. Marks : 15  
 OR

A proforma of cost sheet of a company provides the following particulars :

Elements of Cost	Units
Materials	40%
Direct labour	20%
Overheads	20%



The following further particular are available :

- a) It is proposed to maintain a level of activity of 2,00,000 units.
- b) Raw materials are expected to remain in stores for an average period of one month.
- c) Materials will be in process, on average of half a month.
- d) Selling price is Rs.12 per unit.
- e) Finished goods are required to be in stock for an average period of one month.
- f) Credit allowed to debtors is two months.
- g) Credit allowed by suppliers is one month.

(b) Write a short note on :

Marks : 5

Operating cycle and cash cycle

OR

Inventory Management

#### UNIT – IV

Q. No. 4. (a) Explain various factors peculiar to multi-national firms.

Marks :15

OR

An Indian based multinational firm is considering a project to be set up in the UK. The project will entail an initial outlay of ₹ 200 million and is expected to generate the following cash flow over its year life.

<b>Year</b>	:	1	2	3	4	5
<b>Cash flow :</b>		₹50	₹70	₹90	₹105	₹80
<b>(in million)</b>						

The current spot exchange rate is Rs. 80/UK ₹. The risk free rate in India is 11% and in US is 6%. The firm required rupee return on a project of this kind is 18%.

Calculate NPV of the project using the home currency approach.



- (b) Write a short note on :  
Multinational working capital management.

Marks :5

OR

Multinational capital budgeting.

## UNIT – V

- Q. No. 5. (a) What is merger ? Explain various reasons for merger.

Marks :15

OR

S company is being acquired by L company on a share exchange basis. Their selected data are as follows :

	<b>L. Co.</b>	<b>S. Co.</b>
Profit after-tax	5,60,000	2,10,000
Number of shares	10,00,000	8,40,000
Earning per share	5.6	2.5
Price-earnings ratio	12.5	7.5

Determine :

- Pre-merger, market value per share
- The maximum exchange ratio L company should offer without the dilution of EPS and MPS.

- (b) Write a short note on :  
Advantages of Merger and Takeover.

Marks : 5

OR

Problems of post merger intersection.

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