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SB-4014

M.B.A. (FT) (Sem.-II), (THM) (Sem.-II) & (E) (Sem.-II) Examination

March/April – 2011

CP : 202 - Financial Management (New Course)

Time : **3** Hours] [Total Marks : **100**

Instructions :

(1)

નીચે દર્શાવેલ ☛ નિશાનીવાળી વિગતો ઉત્તરવહી પર અવશ્ય લખવી.
Fillup strictly the details of ☛ signs on your answer book.

Name of the Examination :

☛ M.B.A. (FT) (Sem.-II), (THM) (Sem.-II) & (E) (Sem.-II)

Name of the Subject :

☛ CP : 202 - Financial Management (New)

☛ Subject Code No. : 4 0 1 4 ☛ Section No. (1, 2,.....) : NIL

Seat No. :

Student's Signature

(2) Figures to the right indicate full marks.
(3) Question No. 1 is compulsory.
(4) Attempt any four questions from question no. 2,3,4,5,6,7,8.
(5) Show working as a part of your answer.

1 (a) "....the function of financial management is to review and control decisions to commit or recommit funds to new or ongoing uses. Thus, in addition to raising funds, financial management is directly concerned with production, marketing and other functions within an enterprise whenever decisions are made about the acquisition or destruction of assets" (Ezra Solomon). Elucidate. **8**

(b) Mr. X is 75 years old. He has total savings of Rs. 80,000. He expects that he will live for another 10 years and will like to spend his savings by then. He places his savings into a bank account earning 10 percent annually. He will draw equal amount each year - the first withdrawal occurring one year from now - in such a way that his account balance becomes zero at the end of 10 years. How much will be his annual withdrawal ? **10**

(c) Mr.Y is considering to take a life insurance policy of Royal Prudential for 20 years. The insurance agent is advising him to take a money back policy. The scheme offers money-back at the end of 5th, 10th, 15th and 20th year to the extent of 25%, 25%, 25% and 50% of the insured amount. The premium he will have to pay is Rs. 62 annually for every Rs. 1000 insured. The insurance agent also informs him that he will get a minimum bonus to the extent of 40% at the end of the insurance term. Mr. Y is of the opinion that the premium for the money back policy is on the higher side. If the banks are offering a rate of 11% on the long term deposits, calculate the effective return on the policy and advise Mr. Y on investing in insurance policy or deposits. **10**

2 A prospective investor is evaluating the share of Ashoka Automobiles Company. He is considering three scenarios. Under first scenario the company will maintain to pay its current dividend per share without any increase or decrease. Another possibility is that the dividend will grow at an annual (compounded) rate of 6% in perpetuity. Yet another scenario is that the dividend will grow at a high rate of 12% per year for the first three years, a medium rate of 7% for the next three years and thereafter, at a constant rate of 4% perpetually. This year's dividend per share is Rs. 3. If the investor's required rate of return is 10%, calculate the value of share under each assumptions. **18**

3 The following is the capital structure of X Ltd. as on 31 December, 2003. **18**

	Rs. in Million
Equity capital (paid up)	563.50
Reserves and Surplus	485.66
10% Irredeemable Preference Shares	56.00
10% Redeemable Preference Shares	28.18
15% Term Loans	377.71
Total	1,511.05

The share of the company is currently selling for Rs. 36. The expected dividend next year is Rs. 3.60 per share anticipated to be growing at 8% indefinitely. The redeemable preference shares were issued on 1st January, 1997 with twelve year maturity period. A similar issue today will be at Rs. 93. The market price of 10% irredeemable preference share is Rs. 81.81. The company had raised the term loan from IDBI in 1993. A similar loan will cost 10% today. Assume an average tax rate of 35%. Calculate the weighted average cost of capital for the company using book value weights.

4 A company is considering an investment proposal to install new milling controls at a cost of Rs.50,000. The facility has expectancy of 5 years and no salvage value. The tax rate is 35%. Assume the firm uses straight line depreciation and the same is allowed for tax purposes. The estimated cash flows before deprecition and tax (CFBT) from the investment proposal are as follows : **18**

Year	CFBT (in rupees)
1	10,000
2	10,692
3	12,769
4	13,462
5	20,385

Compute the following :

(i) Pay back period
(ii) Average rate of return
(iii) Internal rate of return
(iv) Net present value at 10% discount rate
(v) Profitability at 10% discount rate.

5 A firm is proposing strict collection policies. At present the firm sells 36,000 units with the average collection period of 60 days. Collection charges amount to Rs. 10,000 and bad debts **18**

are 3% of sales. If collection procedures are tightened, it will reduce the collection period to 40 days and bad debt losses to 1% of sales. However, it involves additional collection charges of Rs. 20,000 and the sales decline by 500 units. If selling price is Rs. 32, average cost if Rs. 28 and variable cost is Rs. 25, whether the firm should implement the policy ? Assume 20% rate of return.

6 Define operating and financial leverage. How can you measure the degree of operating and financial leverage ? Illustrate with an example. **18**

7 What are the merits and demerits of discounting and non-discounting techniques of capital budgeting. **18**

8 Attempt any **two** of the following : **18**

(a) Indian Financial System

(b) Factors affecting dividend policy of the firm.

(c) Dividend Irrelevance : Miller Modigliani Model

(d) Activity Based Costing (ABC) analysis.
