



**SB-4065**  
**M.B.A. (Sem. II) (F.T. & EVE) (ATKT) Examination**  
**March/April – 2011**  
**CP-202 : Financial Management**  
*(Old Course)*

Time : 3 Hours]

[Total Marks : 100

**Instructions :**

(1)

<p>नीचे दशांशविक निशान्तीवाणी विगतो उत्तरवडी पर अवश्य लखवी. Fillup strictly the details of signs on your answer book.</p> <p>Name of the Examination : <b>M.B.A. (Sem. 2) (F.T. &amp; EVE) (ATKT)</b></p> <p>Name of the Subject : <b>CP-202 : Financial Management</b></p> <p>Subject Code No. : <b>4 0 6 5</b> Section No. (1, 2,.....): <b>NIL</b></p>	<p>Seat No. : <table border="1" style="width: 100%; height: 20px; border-collapse: collapse;"><tr><td style="width: 15%;"></td><td style="width: 15%;"></td><td style="width: 15%;"></td><td style="width: 15%;"></td><td style="width: 15%;"></td><td style="width: 15%;"></td></tr></table></p> <div style="border: 1px solid black; border-radius: 15px; padding: 10px; width: 100%; height: 100%; text-align: center; vertical-align: middle;">Student's Signature</div>						

- (2) Answers to section I and Section II should be written on separate answer book.
- (3) Each section carries 50 marks.
- (4) Maximum marks of each question are indicated at the right hand side of the question.
- (5) Question No. 1 and question no. 6 are compulsory.
- (6) Attempt any 2 from questions 2,3,4,5 in Section I and 7,8,9, in section II.
- (7) Show working as part of your answer.
- (8) Use of non programmable calculator is permitted.
- (9) PVF, PVIFA, CVF and CVIFA tables will be provided on demand.

**SECTION - I**

- 1 (a) Profit is an ambiguous (vague) term. Discuss in light of Share Holders' Wealth Maximization Principle. 8
- (b) A company's expected dividend now is Rs. 3.48 per share. Its dividends are expected to grow at 15% for six years and then at a rate of 8% indefinitely. The capitalization rate is 12%. What is the expected price of the share today ? 10

- 2 (a) The Evergreen Company has the choice of raising an additional sum of Rs. 50,00,000 either 6
- (i) By issue of 10% debentures or
- (ii) Additional issue of shares @ Rs. 50 per share
- Presently the capital structure of the company does not consist of any debt and the company has issued 10,00,000 equity shares only. At what level of EBIT, after the new capital funds are acquired, would the EPS be same under different alternative financing plans ?
- (b) Explain the concepts of Operating Risk and Financial Risk ? Explain how these two types of risks are different from one another.

- 3 A company is considering an investment proposal to install a machine at the cost of Rs. 50,000. The machine has a life of 5 years and no salvage value. Tax rate of 35% is applicable. From the following information calculate : Payback period, ARR, NPV @ 15% and IRR. 16

<i>Year</i>	1	2	3	4	5
<i>CFAT (Rs.)</i>	13,250	13,640	14,420	15,200	16,500

- 4 What are the sources of long term finance ? Explain in detail. 16
- What is the difference between long term finance and working capital finance ?
- 5 The following figures relate to two companies : 16

	<b>Rs. in lacs</b>	
Particulars	<b>P Ltd.</b>	<b>Q Ltd.</b>
<b>Sales</b>	750	1000
<b>– Variable cost</b>	<b>300</b>	<b>300</b>
<b>Contribution</b>	450	700
<b>– Fixed Costs</b>	<b>22</b>	<b>400</b>
<b>EBIT</b>	225	300
<b>– Interest</b>	<b>75</b>	<b>100</b>
<b>PBT</b>	150	200

You are required to calculate operating, financial and combined leverage for the two companies and comment on the relative risk position of the firms.

## SECTION - II

- 6** Prepare a monthly cash budget for six months beginning **18**  
April 2010 on the basis of the following information.

(a) Estimated monthly sales are as follows :

<i>January</i>	1,00,000	<i>June</i>	80,000
<i>February</i>	1,20,000	<i>July</i>	1,00,000
<i>March</i>	1,40,000	<i>August</i>	80,000
<i>April</i>	80,000	<i>September</i>	60,000
<i>May</i>	60,000	<i>October</i>	1,00,000

(b) Wages and salaries are estimated to be payable as follows :

<i>April</i>	9,000	<i>July</i>	10,000
<i>May</i>	8,000	<i>August</i>	9,000
<i>June</i>	10,000	<i>September</i>	9,000

- (c) Of the sales, 80% are on credit and 20% for cash. 75% of the credit sales are collected within one month and the balance in two months. There are no bad debts.
- (d) Purchases amount to 80% of sales and are made and paid for in the month preceding the sales.
- (e) The firm has 10% debentures of Rs. 1,20,000. Interest on these has to be paid quarterly in January, April and so on.
- (f) The firm is to make an advance payment of tax of Rs. 5,000 in July 2010.
- (g) The firm has a cash balance of Rs. 20,000 on April 1<sup>st</sup> 2010 which is the minimum desired level of cash balance. Any cash surplus/deficit above/below this level is made up by temporary borrowings at the end of each month.

- 7 A company has been buying a given item in lots of 1,200 units which is a six months' supply, the cost per unit is Rs. 12, order cost is Rs. 8 per order, and carrying cost is 25%. You are required to calculate the savings per year by buying in economical lot quantities. **16**
- 8 Discuss the Dividend Relevance theories of Walter and Gordon in detail. What are the factors which influence the dividend policy of the firm ? **16**
- 9 Short notes : (attempt any two) **16**
- (i) Instruments of the money market
  - (ii) Tandon and Chore committee recommendations
  - (iii) M-M Hypothesis and capital structure theory
  - (iv) Economic order Quantity.
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