

M.B.A.- I (CBCS Pattern) Semester-II  
**PCB2F06 / C26 - Financial Management**

P. Pages : 3

Time : Three Hours



**GUG/W/24/10687**

Max. Marks : 70

- Notes :
1. Attempt **any five** questions.
  2. All questions carry equal marks.
  3. Use present value factor table.

1. What are various sources available to Indian Businessman for raising fund? Explain. **14**
2. How should the finance function of an enterprise be organised ? What functions are performed by the financial officers. **14**
3. 'On-going corporate restructuring is a must for survival due to globalization, liberalization and economics reforms'. Discuss. **14**
4. Explain briefly the concept of working capital and mention the important objectives of working capital Management. **14**
5. Write a short note on **any two**. **14**
  - a) Modigliani-Miller Model.
  - b) Factor's affecting dividend policy of a firm.
  - c) Buyback and joint ventures.
  - d) Commercial Paper.
6. A company has the following capital structure. **14**

Particular	Amount (₹ in Lakhs)
Equity capital (1 Lakhs shares @ ₹ 10 each)	10
Reserves and surplus (retained earnings)	8
12% debentures (5,000 nos. of ₹ 100 each)	5
	<b>23</b>

- i) If the company is paying dividend at 27%, calculate the cost of equity capital and WACC, based on book values.
- ii) If the market value of equity shares is ₹ 15 each and if the debentures are quoted at ₹ 95 each, what is the WACC, based on market values.  
Tax rate in both cases is 50%.

7. Gama & Co. wants to replace its old machine with a new automatic machine. Two models A and B are available same cost of ₹ 5,00,000 each. Salvage value of the old machine is ₹1,00,000. The utilities of the existing machine can be used if the company selects 'A'. Additional cost of utilities to be purchased in that case are ₹1,00,000. If the company purchase B then all the existing utilities will have to be replaced with new utilities costing ₹2,00,000. The salvage value of the old utilities will be ₹20,000. The cash flow are expected to be:

Year	Model A (₹)	Model B (₹)
1	1,00,000	2,00,000
2	1,50,000	2,10,000
3	1,80,000	1,80,000
4	2,00,000	1,70,000
5	1,70,000	40,000
Salvage value at end 5 <sup>th</sup> year	50,000	60,000

The targeted return on capital is 15% you are required to,

- NPV of each machine.
- Discounted payback period.
- Desirability Factor (PI).
- Advise which of the machine is to be selected.

8. Calculate the amount of working capital requirement for ABC Ltd. from the following information. 14

Particular	Amount (₹/unit)
Raw Material	160
Direct Labour	60
Overheads	120
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Total Cost	340
Profit	60
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Selling Price	400

Raw materials are held in stock on an average for 1 Month. Materials are in process on an average for ½ Month. Finished goods are in stock on an average for 4 weeks.

Credit allowed by supplier is one month and credit allowed to debtor is 8 weeks.

Time lag in payment of wages is 1½ weeks.

Time lag in payment of overheads is 1 month.

25% of sales are made on cash basis. Cash in hand to be ₹50,000 and expected level of production amount to 1,04,000 units for a year of 52 weeks.

You may assume that production is carried on evenly throughout the year and a time period of four weeks is equivalent in a month.

- 9.** Agile Ltd. belongs to a risk class of which the appropriate capitalization rate 10%. If currently has 1,00,000 shares selling at ₹100 each. The firm is contemplating declaration of a dividend of ₹6 per share at the end of the current fiscal year which has just begun. Based on M-M model and assume no taxes. **14**
- i) What will be the price of the shares at the end of the year, if dividend is not declared?
  - ii) What will be the price if dividend is declared?
  - iii) Assuming that the firm pays dividend, has net income of ₹10 lakhs and makes new investments of ₹20 lakhs during the period, how many new shares must be issued? Verify MM model.
- 10.** Rajat invested ₹6,00,000 today in a bank. The bank promised to pay ₹75,000 for next 7 years and ₹1,00,000 there after for 8 years. Is the investment worthwhile if the interest rate expected by Rajat is 11% ? **14**

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