

M.B.A. (CBCS Pattern) Semester - II
PCB2F06 - Financial Management

P. Pages : 2

Time : Three Hours



GUG/S/23/10687

Max. Marks : 70

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

1. Discuss the goals & objectives of Financial Management. **14**
2. What are various sources available to Indian Businessman for raising fund? Explain. **14**
3. Explain the concept of over capitalization. Discuss the causes, consequences and remedies of over capitalization. **14**
4. What is Working Capital? What are the factors affecting working capital needs? Explain the significance and types of working capital. **14**
5. What is corporate restructuring? Discuss various methods of corporate restructuring. **14**
6. ABC Ltd. was started a year back with a paid-up equity capital of Rs. 40,00,000. The other details are as under: **14**

Earnings of the company	Rs. 4,00,000
Dividend paid	Rs. 3,20,000
Price-earning ratio	12.5
Number of shares	40,000

You are required to find out whether the company's dividend pay out ratio is optimal, using Walter's formula.

7. Zenith Industries Ltd. are thinking of investing in a project costing Rs. 20 lakhs. The life of the project is five years and the estimated salvage value of the project is zero. Straight line method of charging depreciation is followed. The tax rate is 50%. The expected cash flows before tax are as follows. **14**

Year	1	2	3	4	5
Estimated cash flow before depreciation and tax (Rs. lakhs)	4	6	8	8	10

You are required to determine the

- i) Pay back period for the investment.
- ii) Average rate of return on the investment.
- iii) Net present value at 10% cost of capital
- iv) Benefit cost ratio.

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

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	Amount per unit (Rs.)
Raw material cost	100.00
Director labour cost	37.50
Overheads cost	75.00

Total cost	212.50
Profit	37.50

Selling price	250.00

The company keeps raw material in stock, on average for one month; work-in-progress, on an average for one week; and finished goods in stock on an average for two weeks. The credit allowed by suppliers is three weeks and company allows four weeks credit to its debtors. The lag in payment of wages is one week and lag in payment of overhead expenses is two weeks.

The company sells one-fifth of the output against cash and maintains cash-in-hand and at bank put together at Rs. 37,500.

Required:

Prepare a statement showing estimate of working capital needed to finance an activity level of 1,30,000 units of production. Assume that production is carried on evenly throughout the year, wages and heads accrue similarly and a time period of 4 weeks is equivalent to a month. Work-in -progress stock is 80% Complete in all respects.

9. A firm has sales of Rs. 75,00,000 variable cost of Rs. 42,00,000 and fixed cost of Rs. 6,00,000 it has a debt of Rs. 45,00,000 at 9% and equity of Rs. 55,00,000.
- What is the Firm's ROI?
 - Does it have favorable financial leverage?
 - If the firm belongs to an industry whose asset turnover is 3 does it have a high or low asset leverage?
 - What are the operating, financial and combined leverages of the firm?
 - If the sales drop to Rs. 50,00,000. What will be the new EBIT?
 - At what level the EBT of the firm will be equal to zero?

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10. XYZ Ltd. is intending to acquire ABC Ltd. (by merger) and the following information is available in respect of the companies.

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Particulars	XYZ. Ltd	ABC Ltd.
Number of equity shares	5,00,000	3,00,000
Earnings after tax (Rs)	25,00,000	9,00,000
Market value per share (Rs)	21	14

- What is the present EPS of both the companies?
- (If the proposed merger takes place by exchange of equity shares and the exchange ratio is based on the current market prices) What would be the new earning per share for XYZ Ltd?
- What should be exchange ratio, if ABC Ltd. Want to ensure the same earnings to members as before the merger takes place?
