

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

P. Pages : 2

Time : Three Hours



GUG/S/25/10687

Max. Marks : 70

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

1. How does a commercial bank loan function as a source of financing? **14**
2. A company cuts costs to boost profits but risks quality. How does this align with financial management goals? **14**
3. Is financial restructuring more effective than operational restructuring for a distressed firm? Why? **14**
4. What does the Walter Model suggest about dividend policy for a firm with high internal returns? **14**
5. Write short answers (**any two**) **14**
 - a) Privatization
 - b) Working capital finance from banks
 - c) Practical application of time value technique.
 - d) Watered Stock
6. Aries Ltd. wishes to raise additional finance of Rs. 10 lakhs for meeting its investment plans. It has Rs. 2,10,000 in the form of retained earning available for investment purposes. The following are the further details. **14**

Debt/Equity mix 30:70
Cost of debt upto - Rs. 1,80,000 - 10% (before tax)
Beyond Rs. 1,80,000 - 16% (before tax)
Earning per share = Rs. 4
Dividend payout = 50% of Earning
Expected growth = 10%
Current Market Price = Rs. 44
Tax rate = 50%
Compute the overall weighted average after tax cost of additional finance.
7. X Ltd. is considering investing in a project. The expected original investment in the project will be Rs. 2,00,000. The life of project will be 5 years with no salvage value. The expected net cash in flow after depreciation but before tax are given below. **14**

Year	1	2	3	4	5
Cash Flow (Rs.)	85,000	1,00,000	80,000	80,000	40,000

The project will be depreciated at the rate of 20% on original cost. The company is subjected to 30% tax rate.

Calculate:

- i) Payback period
- ii) Average rate of return
- iii) NPV, if cost of capital is 10%
- iv) Internal rate of return.

8. A newly formed company has applied to Dena Bank, Chandrapur for the first time for its working capital requirement. Estimated level of activity 1,44,000 completed units of production in the year. 14

Product Cost Sheet:

	Rs./unit
Raw Material	45
Direct Wages	20
Overheads	<u>40</u>
Total Cost	<u>105</u>

Raw material in stock is 2 month, The material are in process an average for 4 weeks assume degree of completion stage is 50%. Finished good in stock is 1 month. Credit allowed by suppliers is 1 month. Receivables average in 2 month at sales. Time lags in payment of wages and overhead are 1 ½ week, Cash at Bank is Rs. 1,00,000. All sales are on credit basis only. 20% of the output is sold against cash, Selling price Rs. 120/unit.

Calculate the Net Working Capital required.

Assume 4 week as 1 month and 52 weeks per annum.

9. ABC Ltd. has 50,000 outstanding shares. The current market price is Rs. 100 each. It hopes to make a net income of Rs. 5,00,000 at the end of current year. The company proposes declaration of a dividend of Rs. 5 per share at the end of the current financial year. The capitalization rate for the risk class to which the company belongs is 10%. What will be the market price of the share at the end of the year, if. 14

- i) A dividend is not declared
- ii) A dividend is declared

Assuming that the company makes new investments of Rs. 10 lakhs during the period how many new share must be issued? Use the M-M model.

10. A company operates at a production level of 1000 units. The contribution is Rs. 60 per Unit, operating leverage is 6 and combined leverage is 24. If tax rate is 30%, what would be its earning after tax? 14
