Fourth Semester Five Year B.B.A. LL.B. (Hon's) Examination, June 2013
FINANCIAL MANAGEMENT

Duration : $2^1/_2$ Hours   Max. Marks : 70

Instructions : 1. Answer **all 5** questions.
2. **On**e essay type and **one** short note questions from **each** Unit to be attempted, referred as part (**a**) and (**b**).
3. Figures to the **right** indicate **marks**.
4. **Use** of simple calculators only.

UNIT – I

Q. No. 1. (a) Explain the advantages and limitations of cost of capital.   Marks : 9

OR

Following is the capital structure of Sun Ltd.

1) Equity shares 1,000 of Rs. 100 each.
   Market price Rs. 150 each, $K_e = 12\%$

2) Debentures 10,000 of Rs.100 each
   Market price Rs. 120 each K_d (After tax) = 11%

   You are required to determine WACC using :

a) Book value as weights and total cost.

b) Market value as weights and total cost.

(b) Write a short note on :   Marks : 5

Cost of retained earnings.

OR

CAPM.

UNIT – II

Q. No. 2. (a) Explain the concept of Traditional Approach of capital structure theories with the help of graphical representation.   Marks : 9

OR

Explain Walter and Gordon's model of dividend theory.

P.T.O.

(b) Write a short note on : Marks :

MM Approach of dividend theory.

OR

Factors influencing dividend policy.

UNIT – III

Q. No. 3. (a) What is working capital ? What are the different classifications of working capital ? Marks : 9

OR

You are supplied with the following information in respect of TATA Ltd. for the ensuring year

Productions for the year	69000 units
Finished goods in store	3 months
Raw material in store	2 months
Production process	1 month
Credit allowed by creditors	2 months
Credit given to debtors	3 months
Selling price per unit	Rs. 50
Raw material	50% of selling price
Direct wages	10% of selling price
Overheads	20% of selling price

There is a regular production and sales cycle and wages and overheads accrue evenly. Wages are paid in the next month of accrual. Material is introduced in the beginning of production cycle.

You are required to find out its working capital requirement.

(b) Write a short note on : Marks : 5

Methods of Inventory Management.

OR

The following information is available in respect A Ltd.

a) Stock holding : Raw material – 1 month

   WIP – 15 days, Finsished goods – 1 month

b) Average collection period : 2 months

c) Time lag in payment of bills = 45 days

Calculate :

a) Operating cycle

b) Cash cycle

c) Number of Operating cycles and cash cycles.

UNIT – IV

Q. No. 4. (a) One of the 2 machines A and B is to be purchased. From the following information find out which of the two will be more profitable, with the help of NPV method. Discount factor is assumed to be at 10%. The averages rate of tax may be taken at 50%.   Marks : 9

Particulars	Machine A	Machine B
Cost of machine	50,000	80,000
Working life	4 yrs.	6 yrs.

Earnings before tax and after depreciation :

Years		
1	10,000	8,000
2	15,000	14,000
3	20,000	25,000
4	15,000	30,000
5	–	18,000
6	–	13,000

     OR

Explain different methods of capital budgeting.

(b) Write a short note on : Marks :

Multinational cost of capital.

OR

Multinational capital budgeting.

UNIT – V

Q. No. 5. (a) Explain the motives behind merger. Marks : 9

OR

Large company is acquiring small company. Large Co. will pay 0.5 of its shares to the shareholders of small Co. for each share hold by them. The data for the two companies are given bellow.

	Large Co.	Small Co.
Profit after-tax (Rs. lakh)	150	30
Number of shares (lakh)	25	8
EPS (Rs.)	6.00	3.75
MPS (Rs.)	78.00	33.75
P.E. ratio	13	9

Calculate the EPS of the surviving firm after the merger. If the price-earnings ratio falls to 12 after the merger, what is the premium received by the shareholders of small Co. (using the surviving firm's new price) ? Is the merger beneficial for XYZ's shareholder ?

(b) Write a short note on : Marks : 5

Problems of post-merger integration.

OR

Concepts of horizontal, vertical and conglomerate merger with examples.

_____