[Sept-11]

[MPIBA-0702]

IMBA DEGREE EXAMINATION

VII TRIMESTER

FINANCIAL MANAGEMENT

(Effective from the admitted batch 2008–09)

Time: 3 Hours **Max.Marks: 60**

Instructions: All parts of the unit must be answered in one place only.
Figures in the right hand margin indicate marks allotted.

SECTION-A

1. Answer any **FIVE** of the following:
   Each answer should not exceed one page. (5x4=20)

   a) What is the role of a finance manager in the modern business organizations?
   b) What do you mean by financial forecasting?
   c) List the fundamental accounting ratios
   d) What are the broad objectives of the firm's dividend policy?
   e) A chemical company is considering investing in a project that costs Rs.5,00,000. The estimated salvage value is zero; tax rate is 55%. The company uses straight line depreciation and the proposed project has cashflows before tax (CFBT) as follows:

Year	CFBT (Rs.)
1	1,00,000
2	1,00,000
3	1,50,000
4	1,50,000
5	2,50,000

   Determine the payback period

   f) Equity shares of ABC Ltd. are currently selling for Rs.125 per share. The company expects to pay Rs.15 per share as dividend at the end of the coming year, and the estimated growth rate is 6%. It is expected that new equity shares can be sold at Rs.123; the company expects to incur Rs.3 per share as flotation cost. What is the cost of equity capital?
   g) Determinants of working capital
   h) Factors affecting dividend decision

SECTION-B

Answer the following:

UNIT-I

2. a) Why do business enterprises need finance? What are the different sources of such finance? 8

OR

b) Enumerate the role of capital market as source of long-term financing 8

UNIT-II

3. a) The equity capital is cost free. Do you agree? Give reasons 8

OR

b) A firm finances all its investments by 40 per cent debt and 60 per cent equity. The estimated required rate of return on equity is 20 per cent after taxes and that of the debt is 8 per cent after taxes. The firm is considering an investment proposal costing Rs.40,000 with an expected return that will last forever. What amount (in rupees) must the proposal yield per year so that the market price of the share does not change? Show calculations to prove your point 8

UNIT-III

4. a) What is a 'Flexible Budget' and how is it different from 'Fixed Budget'? 8

OR

b) A firm whose cost of capital is 10% is considering two mutually exclusive projects X and Y, the details of which are: 8

		Project X Rs.	Project Y Rs.
Investment		70,000	70,000
Cash in flow: year	1	10,000	50,000
	2	20,000	40,000
	3	30,000	20,000
	4	45,000	10,000
	5	60,000	10,000
		1,65,000	1,30,000

Compute the net present value at 10% and profitability index

UNIT-IV

5. a) Define the working capital management. Why is it important to study the management of working capital as a separate area in financial management? 8

OR

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

	Amount per unit (Rs.)
Raw material	80
Direct labour	30
Overheads	60
Total cost	170
Profit	30
Selling price	200

The following further particulars are available:

i) Raw material in stock, on an average one month, materials in process, on an average half a month, finished goods in stock, on an average one month

ii) Credit allowed by suppliers is one month; credit allowed to debtors is two months; lag in payment of wages is one and a half weeks; lag in payment of overhead expenses is one month; one fourth of the output is sold against cash; cash in hand and at bank is expected to be Rs.25,000

You are required to prepare a statement showing working capital needed to finance a level of activity of 1,04,000 units of production. You may assume that production is carried on evenly throughout the year, wages and overheads accrue similarly.

UNIT-V

6. a) In what way are dividend policy and retention of earnings related to the financing of the firm's business? 8

OR

b) What are the essentials of Walter's dividend model? Explain its shortcomings 8