2M6202

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M. B. A. (Sem.II) (Main / Back) Examination, July - 2009

M - 202 : Financial Management

Time : 3 Hours]

[Total Marks : 70

[Min. Passing Marks : 28

*The question paper is divided in **two** sections.*

*There are sections **A** and **B**. Section **A** contains **6** questions out of which the candidate is required to attempt any **4** questions. Section **B** contains short case study / application based **1** question which is **compulsory**.*

*All questions are carrying **equal** marks.*

Use of following supporting material is permitted during examination.
(Mentioned in form No. 205)

1. Nil   2. Nil

SECTION - A

1 What are the basic financial decisions ? How do they involve risk-return trade off ?

14

2 Write short notes :

(i) Financial leverage and operational leverage

(ii) Bonus shares

(iii) Lease financing and Hire purchase financing

(iv) Commercial paper.

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3 (a) The following facts are available :

Risk free rate 9%

Required rate of return 18%

Beta coefficient of ABC share 1.5

Expected dividend during next year .... Rs. 3

Growth rate in dividends 8%

Compute the price at which the shares of ABC should sell ?

(b) What is Risk ? How can risk of a security be calculated? Explain with the help of example.

7+7=14

4 (a) Consider the following figures pertaining to risk free rate, market rate and return rate of a security of Pappu Ltd.

Year	*Risk-free rate* (R_f)	*Market rate* (K_m)	*Security return* (R_j)
1	0.06	0.14	0.08
2	0.05	0.03	0.11
3	0.07	0.21	0.29
4	0.08	0.26	0.25
5	0.09	0.03	0.07
6	0.07	0.11	0.04

Determine the cost of equity capital in the context of CAMP. Past data may be taken as a proxy for future.

(b) Risk free return - 7.75%

Beta - 2

Expected return of investors - 16%

Apply CAPM compute the expected market return.

10+4=14

5 (a) What are the factors that influence management's decision to pay dividend of a certain amount ?

(b) Define and distinguish between the concepts of merger, takeover and amalgamation. Illustrate your answer with suitable examples.

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6 (a) What is capital budgeting ? Why is it significant for a firm ?

(b) How do you calculate the accounting rate of return ? What are its limitations ?

7+7=14

SECTION - B

7. Case study :

A firm has applied for working capital finance from a commercial bank. You are requested by the bank to prepare an estimate of the working capital requirements of the firm. You may add 10% to your estimated figure to account for exigencies. The following is the firm's projected profit and loss account :

		Rs.
(1)	Sales	22,47,000
(2)	Cost of goods sold	16,37,100
(3)	Gross profit	6,09,900
(4)	Administration expenses	1,49,800
(5)	Selling expenses	1,39,100
(6)	Profit before tax	3,21,000
(7)	Tax provisions	1,07,000
(8)	Profit after tax	2,14,000

The cost of goods sold is calculated as follows :

Materials used	8,98,800
Wages and other expenses	6,68,750
Depreciation	2,51,450
	18,19,000
Less : Stock of finished goods (10% product not yet sold)	1,81,900
Cost of goods sold	16,37,100

FGSP FGSP FGSP

The figures given above relate only to the goods equal to 15 percent of the year's production (in terms of physical units) are in progress on an average requiring full material but only 40% of other expenses. The firm has a policy of keeping 2 months consumption of material in stock.

All expenses are paid 1 month in arrear. Suppliers of material grant $1\frac{1}{2}$ month credit. Sales are 20% cash while remaining sold on 2 month credit. 70% of the income tax was to be paid in advance in quarterly instalments.
