

AP-257

year. The capitalisation rate for the risk class to which the company belongs is 12%. What will be the market price of the shares at the end of year, if :

- (i) A dividend is not declared
- (ii) A dividend is declared
- (iii) Assuming that the company pays the dividend and has net profit of Rs. 5,00,000 and make new investment of Rs. 10,00,000 during the period. How many new shares must be issued ? Use the MM model.

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M.B.A. (Semester-II) Examination
FINANCIAL MANAGEMENT

Time—Three Hours]

[Maximum Marks—70

Note :— (1) Attempt All questions.

(2) Figures to the right indicate marks.

(3) Annuity Tables showing future and present value and scientific calculator are allowed.

SECTION—A

1. (a) What is weighted average cost of capital ? What is the need to calculate weighted average cost of capital ?

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OR

- (b) What are different sources of long term financing ? Explain difference between leasing and hire-purchase financing.

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SECTION—B

2. (a) Distinguish between operating leverage and financial leverage. How can the two leverage be measured ?

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- (b) From the following data you are required to calculate break-even point :

	₹
Direct material cost per unit	8
Direct labour cost per unit	5
Fixed overheads	24,000
Variable overheads @ 60% of direct labour	
Selling price per unit	25
Trade discount	4%
If sales are 15% and 20% above the break-even-volume, determine the net profit.	7

OR

- (c) "Financial management is more than procurement of fund." What do you think are responsibilities of a finance manager ? 7
- (d) Calculate the degree of operating leverage (DOL), degree of financial leverage (DFL) and degree of combined leverage (DCL) for the following firms :

	Firm 'A'	Firm 'B'	Firm 'C'
1. Output (Unit)	60,000	15,000	1,00,000
2. Fixed cost (Rs.)	7,000	14,000	1,500

Year	Project 'A'	Project 'B'
3	Rs. 1,32,000	Rs. 96,000
4	84,000	1,02,000
5	84,000	90,000

You are required to calculate for each project :

(i) Payback period

(ii) Profitability index.

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OR

- (c) "Despite being conceptually unsound, pay back period is very popular in business as a criteria for assigning priorities to investment project."

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- (d) Bond of Rs. 1,000 matures in 20 years and offers a 9% coupon rate. The required rate of return is 11%.

Compute the bond's value.

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SECTION—C

5. RST Ltd. has a capital of Rs. 10,00,000 in equity shares of Rs. 100 each. The shares are currently quoted at par. The company proposes to declare a dividend of Rs. 10 per share at the end of the current financial

	Firm 'A'	Firm 'B'	Firm 'C'
3. Variable cost per			
unit (Rs.)	0.20	1.50	0.02
4. Interest on			
Borrowed fund			
(Rs.)	4,000	8,000	—
5. Selling price per			
unit (Rs.)	0.60	5.00	0.10

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3. (a) Enumerate the main assumptions of the "Net Income Approach" of capital structure. Is there an "Optimal Capital Structure" as per this approach ? Explain.

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- (b) Calculate the present value of an annuity of Rs. 1,00,000 at an effective rate of interest of 12% p.a. in static growth rate of 10% per year of 5 year.

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OR

- (c) How 'time value of money' is helpful to finance manager to take correct financial decision ?

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- (d) ABC Ltd. with EBIT of Rs. 3,00,000 is evaluating a number of possible capital structures, given below. Which of the capital structure will you recommend and why ?

Capital Structure	Debt. (Rs.)	$K_d\%$	$K_e\%$
I	3,00,000	10.0	12.0
II	4,00,000	10.0	12.5
III	5,00,000	11.0	13.5
IV	6,00,000	12.0	15.0
V	7,00,000	14.0	18.0

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4. (a) Explain different financial assets valuation concept.

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- (b) Company has to make a choice between two projects namely 'A' and 'B'. The initial capital outlay of two projects are Rs. 1,35,000 and Rs. 2,40,000 respectively for A and B. There will be no scrap value at the end of the life of both the projects. The opportunity cost of capital of the company is 16%. The annual income are as under :

Year	Project 'A'	Project 'B'
1	—	Rs. 60,000
2	Rs. 30,000	84,000