MID-WESTERN UNIVERSITY
FACULTY OF MANAGEMENT
CHANCE EXAMINATIONS 2018
MASTER OF BUSINESS STUDIES (MBS)
SEMESTER - III

Subject: **Financial Management**	Course Code: MGMT 535
Full Marks: 100	Time: 4 Hours

You are required to answer in your own words as far as applicable. The figures in the margin indicate full marks.

SECTION A: VERY SHORT ANSWER QUESTIONS (10 x 2 = 20 MARKS)

Answer all questions

1. State the functions of managerial finance.
2. What do you mean by DuPont equation?
3. Mention any four limitations of ratio analysis.
4. Why is WACC calculated?
5. Write the meaning of MIRR.
6. Mention the formula for calculating carrying cost of receivable.
7. State the major problems of payback period.
8. A company is considering installing a new plant. The plant will require cost of Rs 650,000. In addition to the price of the plant Rs 250,000 is required for shipping charge and Rs 150,000 for the installation of the plant and equipment. The plant also required an additional working capital of Rs 80,000. What is the initial cash outlay of this plant? What is the original cost of this plant?
9. What are the motives for holding cash?
10. Write factor affecting dividend policy.

SECTION B: SHORT ANSWER QUESTIONS (8 x 6= 48 MARKS)

Answer any *six* questions

11. Write the differences between profit maximization and wealth maximization goal of the firm? *8*
12. The Deuti Furniture Industries has Rs 1312,500 in current assets and Rs 525,000 in current liabilities. Its initial inventory level is Rs 375,000 and it will raise funds as additional notes payable and use them to increase inventory. How much can Deuti Furniture's short term debt (notes payable) increase without pushing its current ratio below 2.0? What will be the firm's quick ratio after Deuti Furniture has raised the maximum amount of short term funds? *8*
13. The Bulbule Company's current EPS is Rs 6.50. It was Rs 4.42 5 years ago. The company pays out 40 percent of its earnings as dividends, and the stock sells for Rs 36. *8*
    a) Calculate the past growth rate in earnings.
    b) What is the cost of equity, for the Bulbule Company?
14. CG Electronic Company is attempting to determine the optimal level of current assets for the coming year. Management expects sales to increase to approximately Rs 5 million as a result of an asset expansion presently being undertaken. Fixed assets total Rs 3million, and the firm wishes to maintain a 40 percent debt ratio. The company's interest cost is currently 10 percent on both short-term and longer-term debt. Three alternatives regarding the projected current assets level are available to the firm:
    1) An aggressive policy requiring current assets of only 30 percent of projected sales.
    2) A moderate policy of 50 percent of sales in current sales.
    3) A conservative policy requiring current assets of 70 percent of sales.

    The firm expects to generate earnings before interest and tax at a rate of 14 percent on total sales. What is the expected return on equity under each current assets level? Assume a 30 percent tax rate. 8
15. In 2010 the Surkhet Bricks Corporation paid dividends totaling Rs 1125,000. For the past ten years, earnings have grown at a constant rate of 10 percent. After-tax income was Rs 3750,000 for 2010. However, in 2011, earnings were Rs 6750,000 with investment of Rs 5000,000. It is predicted that Surkhet

Bricks Corporation will not be able to maintain this higher level of earnings and will return to previous 10 percent growth rate. Calculate dividends for 2011 if the Surkhet Bricks Corporation follows each of the following policies.

a) Its dividend payment is stable and growing.
b) It continues that 2010 dividend payout ratio.
c) It usages a pure residual dividend policy (30 percent of the Rs 5000,000 investment was financed with debt)
d) The investment in 2011 is financed 30 with external equity, 30 percent with debt and 40 percent with retained earnings. Any earnings no invested are paid out as dividends. *2x4 =8*

16. The Tata Motors Company is evaluating three investment situations: (1) produce a new model, (2) modify its existing models include several new designs, and (3) develop a new, higher quality model. If only the project in question is undertaken, the expected present values and the amounts of investment required as follows:

Project	Investment Required	Present Value of Future Cash Flows
1	Rs 255,000	Rs 330,000
2	185,000	280,000
3	390,000	530,000

It project 1 and 2 are jointly undertaken, there will be no economies; the investment required and present values will simply be the sum of the parts. With Projects 1 and 3, economies are possible in investment because one of the machines acquired can be used in both production processes. The total investment required for projects 1 and 3 combined is Rs 580,000. If projects 2 and 3 are undertaken, there are economies to be achieved in marketing and producing the products but not in investment. The expected present value of future cash flows for projects 2 and 3 combined is Rs 865,000. If all three projects are undertaken simultaneously, the economies noted above will still hold. However, a Rs 140,000 extension on the plant will be necessary, as space is not available for all three projects. Which project or projects should be chosen? *8*

17. Surkhet Textile, Inc. has 18 retail clothing outlets scattered throughout the country. Each outlet sends an average of Rs 15,000 daily to the head office in Surkhet, through checks drawn on local banks. On average, it takes six days before the company's Surkhet bank collects the checks. Surkhet Textile, Inc. is considering an electronic funds transfer arrangement that completely eliminate the float. *2+2+4=8*
    a. What amount of funds will be released?
    b. What amount will be released on net basis if each local bank requires increases in compensating balance of Rs 15,000 to offset the loss of float?
    c. Suppose that the company could earn 10 percent interest on the net released funds in part (b). If the cost per electronic transfer were Rs 10 and each store averaged 250 transfers per year, would the proposed arrangement be worthwhile?

18. Write short notes on (Any Two) : 4x2
    a) Credit standard
    b) Stock repurchase
    c) Discounted payback period

SECTION C: LONG ANSWER QUESTIONS (2 x 16 = 32) MARKS

Answer any *two* questions

19. a. Define capital budgeting. Differentiate between Net present value (NPV) and internal rate of return (IRR) method of capital budgeting. *8*

    b. What do you mean by working capital? Explain the various factors affecting working capital of a firm.

    2+6 = 8

20. Patanjali Products Company is considering two mutually exclusive investments. The projects' expected net cash flows are as follows

Expected Net Cash Flows (in millions)

Year	**Project A**	**Project B**
0	(Rs 550)	(Rs 585)

1	(387)	214
2	(193)	214
3	(100)	214
4	700	214
5	700	214
6	850	214
7	(180)	0

a) What is each project's IRR?

b) If you were told that each project's cost of capital was 12 percent, which project should be selected? If the cost of capital was 15 percent, what be the proper choice? *8+8*

21. On January 1, 2018, the total assets of the Sona Cement Company were Rs 180 million. By the end of the year total assets are expected to be Rs 360 million. The firm's capital structure, shown below, is considered to be optimal;

Common equity	90,000,000
Preferred stock (at 11.5%)	18,000,000
Debt (11% coupon bonds)	Rs 72,000,000
	Rs 180,000,000

New bond will have 12.5 percent coupon rate and will be sold at par. Preferred stock will have 13 percent rate and will be sold at par. Common stock, currently selling at Rs 250 a share, can be sold to net the company Rs 230 a share. Stockholders' required rate of return, estimated to be 15 percent, consists of dividend yield of 5 percent and an expected growth of 10 percent. Retained earnings are estimated to be Rs 20 million (ignoring depreciation). The marginal corporate tax rate is 40 percent.

a) Assuming all asset expansion (gross expenditures for fixed assets plus related working capital) is included in the capital budget, what is the amount of the capital budget (ignoring depreciation)?
b) To maintain the present capital structure, how much of the capital budget must be financed by equity?
c) How much of the new equity funds needed must be generated internally? How much externally?
d) Calculate the cost of each of the equity components.
e) At what level of capital expenditures will there be a break in the MCC schedule?
f) Calculate the MCC both below and above the break in the schedule.

2+2+2+4+2+4=16

Best of Luck