DECEMBER 2013 EXAMINATION

FM 12/eFM12
FINANCIAL MANAGEMENT

Time: Three Hours **Maximum Marks: 100**

Note:

The paper is divided in three sections: Section A, Section B and Section C. There are 7 questions in Section-A, students are required to attempt ANY FOUR. Section-B has 5 questions, attempt ANY THREE. All the questions of Section-C (Case Study) are compulsory.

SECTION-A
(Each question is of 10 Marks. Attempt any four)

1. Futura Limited has an obligation to redeem Rs.500 million bonds 6 years from now. How much should the company deposit annually in a sinking fund account if it earns 14% interest to cumulate Rs 500 million in 6 years' time?

The future value interest factor FVIF (14%, 6yrs) = 2.195
The future value interest factor for an Annuity FVINA (14%, 6yrs) = 8.536

2. Explain five different approaches to calculate the cost of equity?

3. Explain two internal and three external sources of long-term financing? How would you differentiate between equity shares and debentures as a source of long term finance?

4. What is the difference between an operating cycle and cash cycle? Explain with an example.

5. AIMA wishes to institute a scholarship of Rs.7000 for exceptional students. Calculate the present value which would yield the said amount for perpetuity, discounted at 9%.

6. What are the three different approaches for financing working capital? Explain.

7. What does economic order quantity determine? If there is an estimated Annual resource of 1200 units, the purchasing cost per unit is Rs. 50, the ordering cost per order is Rs.37.50, and the carrying cost per unit is Rs1. What would be its EOQ?

SECTION-B

(Each question is of 15 Marks. Attempt any three)

8. Describe the three broad areas of financial decision making. What is the objective of all the three decisions and how are these decisions inter-related? Explain with examples.

9. What are operating and financial leverages? What does the combined leverage imply? How can calculating the degree of leverages help to maximize the revenue of a firm?

10. Given the following information about Priceline Industries Ltd
EPS = Rs 10
Cost of Capital (K) = 10%

Assured rate of return
(a) 15%
(b) 10%
(c) 8%

Show the effect of the dividend policy on the market price per share using Walters model. Under different dividend payment returns i.e 40%, 60% & 90%.

11. From the following information provided by big brothers Ltd. Draw up its balance sheet:

Current ration	2.5
Liquid ratio	1.5
Net working capital	Rs. 60,000
Stock turnover ratio (cost of sales/closing stocks)	6 times
Gross profit ratio	20
Fixed assets turnover ratio (on cost of sales)	2 times
Average collection period	2 months
Fixed assets to shareholders net worth	0.8
Reserve and surplus to capital	0.5
Long term loans	Rs.30,000

12. What are the various sources of credit information for an individual and for a corporate? Name the different agencies in India. Do you think Aadhar Card would act as a source of credit in future? Why or Why not?

SECTION-C

Case Study (15 Marks)

13. HAL ltd. needs Rs. 500,000 for constructing a new plant. The following three plans have been shared by the Finance Manager with the management:

1) HAL can issue 50,000 ordinary shares at Rs. 10 per share.
2) HAL can issue 25,000 ordinary shares at Rs. 10 per share and 2500 debentures of Rs. 100 denominations bearing a rate of interest of 8%.
3) The company may issue 25,000 ordinary shares at Rs. 10 per share and 2,500 preference shares at Rs. 100 per share bearing a 8% rate of dividend.

If the company's earning before interest and taxes are Rs. 10,000, Rs. 20,000, Rs.40,000, Rs.60,000 and Rs.100,000. Assume a corporate tax rate of 50 percent. What are the earnings per share under each of the three financial plans? Which alternative would you recommend and why?