INDIAN MARITIME UNIVERSITY

(A CENTRAL UNIVERSITY, GOVERNMENT OF INDIA)

M.B.A. (INTERNATIONAL TRANSPORTATION AND LOGISTICS)
DEC '14 / JAN'15 END SEMESTER EXAMINATIONS
II SEMESTER EXAMINATION

FINANCIAL MANAGEMENT (CODE: T 1202)

Time: 3 Hrs: MAX MARKS : 60
Date :26-12-2014 Pass Marks : 30

Section –A

(12 x 1= 12Marks)

Answer ALL the questions. All questions carry equal mark

1. Cost of Capital refers to:
   (a) Flotation Cost,
   (b) Dividend,
   (c) Required Rate of Return,
   (d) None of the above.

2. Cost of Equity Share Capital is more than cost of debt because:
   (a) Face value of debentures is more than face value of shares,
   (b) Equity shares have higher risk than debt,
   (c) Equity shares are easily saleable,
   (d) All of the three above.

3. In order to calculate EPS, Profit after Tax and Preference Dividend is divided by:
   (a) MP of Equity Shares,
   (b) Number of Equity Shares,
   (c) Face Value of Equity Shares,
   (d) None of the above

4. Financial Planning deals with:
   (a) Preparation of Financial Statements,
   (b)Planning for a Capital Issue,
   (c) Preparing Budgets,
   (d)All of the above.

5. Capital Budgeting is a part of:
   (a)Investment Decision,
   (b) Working Capital Management,
   (c) Marketing Management,
   (d) Capital Structure.

6. If there is no inflation during a period, then the Money Cash flow would be equal to:
   (a) Present Value,
   (b) Real Cashflow
   ,(c) Real Cashflow + Present Value ,
   (d) Real Cashflow - Present Value

7. MM Model argues that dividend is irrelevant as
   (a)the value of the firm depends upon earning power,
   (b)the investors buy shares for capital gain,
   (c)dividend is payable after deciding the retained earnings,
   (d)dividend is a small amount

8. Shares of face value of Rs. 10 are 80% paid up. The company declares a dividend of 50%. Amount of dividend per share is
   (a)Rs. 5,
   (b)Rs.4,
   (c)Rs. 80,
   (d) Rs. 50

9. In a diversified portfolio, a new security adds
   (a) Systematic Risk,
   (b) Unsystematic Risk,
   (c) Liquidity Risk,
   (d) None of the above.

10. Which of the following is true for Net Income Approach?
    (a) Higher Equity is better,
    (b) Higher Debt is better,
    (c) Debt Ratio is irrelevant,
    (d) None of the above.

11. Which of the following argues that the value of levered firm is higher than that of the unlevered firm?
    (a) Net Income Approach,
    (b) Net Operating Income Approach,
    (c) MM Model with taxes,
    (d) Both (a) and (c).

12. Walter's Model suggests for 100% DP Ratio when
    (a) $k_e = r$,
    (b) $k_e < r$,
    (c) $k_e > r$,
    (d) $k_e = 0$

SECTION- B (5 x 4 = 20 Marks)

Answer any FIVE questions, All questions carry equal mark

13. Prepare an estimate of working capital requirement from the following information of a trading concern:

a.	Project annual sales	1,00,000 units
b.	Selling price	Rs. 8 per Unit
c.	% age of net profit on sales	25
d.	Average credit period allowed to customers	8 weeks
e.	Average credit period allowed by suppliers	4 weeks
f.	Average stock holding in terms of sales requirement	12 weeks
g.	Allow 10% for contingencies	

14. A company expects a net income of Rs. 80,000. It has Rs. 2,00,000 , 8% Debentures. The equity capitalization rate of the company is 10%. Calculate the value of the firm and overall capitalization rate according to the Net Income Approach (ignoring income –tax).

15. a) X ltd., issues Rs. 50,000 8% debentures at par. The tax rate applicable to the company is 50%. Compute the cost of debt capital. b) Y ltd., issues Rs. 50,000 8% debentures at a premium of 10%. The tax rate applicable to the company is 60%. Compute cost of debt capital.

16. What are the sources of long term finance? Explain

17. Name the various kinds of working capital.

18. What are the problems in determination of cost of capital?

19. Define capital structure. Name various theories of capital structure.

SECTION – C (4 x 7 = 28 Marks)

Question No.20 is compulsory
Answer any Three questions of the remaining five questions
All questions carry equal mark

20. A ltd company is considering investing in a project requiring a capital outlay of Rs 2,00,000. Forecast for annual income after depreciation but before tax is as follows:

Year	Rs.
1.	100,000
2.	100,000
3.	80,000
4.	80,000
5.	40,000

Depreciation may be taken as 20% on original Cost and taxation at 50% of net income. Evaluate the project according to each of the following methods.

a) Pay-back method
b) Rate of return on average investment method.
c) NPV method
d) IRR method

21. Compute the market value of the firm, value of shares and the aveage cost of capital from the following information:

Net operating Income	Rs. 2,00,000
Total investment	Rs. 10,00,000
Equity capitalization rate	
a. If the firm uses no debt	10%
b. If the fire uses Rs. 400,000 debt	11%
c. If the firm uses Rs. 6,00,000 debt	13%

Assume that Rs. 4,00,000 debenture can be raised at 5% rate of interest whereas Rs. 6,00,000 debentures can be raised at 6% rate of interest.

22. A company issues 1000 equity shares of Rs. 100 each at à premium of 105. The company has been paying 20% dividend to equity shareholders for the past five years and expects to maintain the same in the future also. Compute the cost of equity capital. Will it make any difference if the market price or equity share is Rs. 160?

23. There are two firms X and Y which are exactly identical except that X does not use any debt in its financing, while Y has Rs. 1,00,000 5% debentures in its financing. Both the firms have earnings before interest and tax of Rs. 25,000 and the equity capitalization rate is 10%. Assuming the corporation tax of 50% . calculate the value of the firm using M&M approach.

24. Explain the meaning of the term capital structure and mention the factors affecting capital structure.

25. What are various short term sources available to Indian businessmen for raising funds? Explain.

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