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DOON UNIVERSITY, DEHRADUN

Mid Term Examination, Second Semester, 2013

School of Management

MBA

Course: MMS- 514: Financial Management

Time Allowed: 2 hrs *Max. Marks: 30*

Instructions:

1. *Attempt all questions*
2. *Use of Non-Scientific Calculator is allowed*
3. *Time Value of Money and PV table can be obtained from invigilator(s) on demand*

Section A: 10 Marks (1 Mark each)

Question1: The modern approach of Financial Management view: (a). The total funds requirement of the firm, (b).The Assets to be acquired, (c). The pattern of financing the assets,

Question 2: The Financing of long-term assets should be made from: (a) Short Term Funds, (b). Long-term Funds, (c). Debt Funds, (d). Equity Funds.

Question 3: A firm can invest Rs. 12,000 in a project with a life of 4 years. The projected cash inflow are as follows: Year1- Rs.3000; year 2- Rs.4000;year 3- Rs.5000;year 4- Rs.3,500. The cost of Capital is 10%. The NPV of the Project is: (a). Rs. 180, (b). Rs. 210, (c). Rs. 280, (d). Rs.110.

Question4: A person is required to pay four equal annual payments of Rs. 4000 each in his deposit account that pays 10 percent interest per year.Find out the future value of annuity at the end of 4 years.

Question 5: ABC Ltd.has a gearing ratio of 40%. Its cost of equity is 21% and cost of debt is 15%. Calculate the company's WACC.

Question 6: The Project involves a total initial expenditure of Rs. 2,00,000 and its is estimated to generate future cash inflow of Rs. 30,000, Rs.38000, Rs.25000, Rs. 22,000, Rs.36,000, Rs. 40,000, Rs.40,000, Rs.28,000, Rs. 24,000 and Rs.24000 in its last year. The Payback Period is ____.

Question 7: A Firm can invest Rs. 10,000 in a project with a life of three years. The projected cash inflow are: Year 1- Rs. 4000, Year2- Rs.5000 and Year 3- Rs.4,000. The cost of capital is 10% p.a. should the investment be made?

Question 8: IRR of a Project is that rate where NPV Tends to : (a). Zero, (b). Less than 1, (c). more than 1, (d) 1

Question 9: Estimate of future cashflows should not include:

(a). Income Tax receipts and Payments, (b). Projection of cash inflows from the continuing use of the assets (c) Net Cashflows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life, (d) All of the above.

Question 10: The need for working capital arises because the time gap between production of goods and their actual realization after sales is termed as: (a) Operating Cycle, (b). Business Cycle, (c). Cash Conversion Cycle, (d). None of the above

Section B (14 Marks)

Question 11: Calculate the operating cycle of a company which gives the following details: **(4 marks)**

Particulars	Rs.
Raw Materials Consumption per annum	8,42,000
Annual cost of Production	14,25,000
Annual Cost of Sales	15,30,000
Annual Sales	19,50,000
Average Value of current assets held:	
Raw Materials	1,24,000
Work in Progress	72,000
Finished Goods	1,22,000
Debtors	2,60,000

The company gets 30 days credit from its suppliers. All Sales made by the firm are on credit only.(one year= 365 days).

Question 12 (a). What are Spontaneous Finance and Negotiated Finance sources for Working Capital Finance?**(2 Marks)**

Question 12(b).Define basic concepts of: (2Marks)

(a). Economic Order Quantity

(b). ABCAnalysis

Question 13 "Financial Management is nothing but managerial decision making on asset mix, capital mix and profit allocation ", explain. . **(2 Marks)**

Question 14: Why it is inappropriate to seek profit maximization as the goal of financial decision making? How would you justify the adoption of present value maximization as an appropriate substitute for it ? . **(2 Marks)**

Question 15 List the theories on Optimum Capital Structure. . **(2 Marks)**

Section C (6Marks)

Question 16.

Firm X and Firm Y manufacture the same product and their cost sheets are given below:

Unit Manufactured and Sold	**Firm X** **20,000**	**Firm Y** **20,000**
Direct Material	10	10
Direct Labor	5	5
Variable Overheads	5	5
	20	20
Contribution	10	10
Selling Price	30	30
Fixed Cost	100000	150000

Calculate and analyze the operating leverage. **(1 Marks)**

Question17.

The following information is available for Crompton Ltd. For the year ended 31st March 2010.

(1Marks)

Interest on debt	Rs. 400,000
Preference dividend	Rs.200,000
Corporate tax rate	40%

Calculate the degree of financial leverage (i) if EBIT is Rs. 10,00,000 and (ii) if EBIT is Rs. 15,00,000.

Question 18 Differentiate the impact of Debt and Equity in Capital Market. **(1 Marks)**

Question 19: Mention the impact of Financial Leverage on shareholders wealth. **(1 Marks)**

Question 20: A Company has to select one of the following two projects: **(2 Marks)**

Particulars	Project A(in Rs.)	Project B(in Rs.)
Cost	11,000	10,000
Cash Inflows		
Year 1	6000	1000
Year 2	2000	1000
Year3	1000	2000
Year4	5000	10000

Using the any discounting technique, suggest which project is preferable.