K.J. Somaiya Institute of Management Studies & Research
Course: MIM– II Sem. End Term Exam
Sub: Financial Management

Date of Exam: 9th April, 2018. Time: 3 Hrs. Marks: 50

1. Solve any Five each carries 10 marks.
2. Use of scientific calculator is allowed but not financial calculator or mobile phone.

Question No.1 (A)
A person deposit Rs.200000 in his deposit account at the end of every quarter @12%p.a. compounded quarterly. Determine the account balance at the end of 4 years. (**Hint:** Use concept of Capital Recovery)
Question No.1 (B)
A bank granted a loan of Rs.1269600 repayable in 4 equal annual installment beginning with the end of first year. Determine the amount of installment if effective rate of interest is 18%p.a. (**Hint:** Use concept of loan amortization)

Question No.2
A company is considering a proposal of installing a drying equipment. The equipment would involve a cash outlay of Rs.600000 and working capital of Rs.80000. The expected life of project is 6 years without any salvage value. Assume that the company is allowed to charge depreciation on SLM basis and that the tax rate is 50%. The estimated cash flows are given below:

Year	**1**	**2**	**3**	**4**	**5**	**6**
Cash flows	155	140	130	125	110	180

If the company's cost of capital is 12%. Calculate NPV, IRR, BCR and Payback period of project. Also suggest accepting or rejecting project.

Question No.3
In order to finance expansion plan, LCD Ltd. requires Rs.20 lakhs and provide you the following information:

1. Various sources by which Rs.20 lakhs LCD Ltd. will raise is as follow:

Source of Capital	**Amount of each source of capital**
Equity	400000
Reserves and Surplus	100000
18% Preference Share Capital	300000
12% Term Loan	400000
12.5% Debenture	800000
Total	200000

2. The prevailing risk free rate on GOI treasury bonds is 5.5%. Market rate of Return (Rm) is 13.5%. The beat of company is 1.1875.
3. The corporate tax rate is 30%.

Calculate Weighted Average Cost of Capital.

Question No.4
The management of JC & Company Ltd. has called for a statement showing the working capital needed to finance a level of activity of 300000 units of output for the year. The cost structure for the company's product, for the above mentioned activity level, is detailed below:

Raw materials	Rs.20
Direct labour	5
Overheads	20
Total Cost	45
Profit	5
Selling Price	50

Past trend indicates that the raw materials are held in stock, on an average, for 2 months. WIP will

approximate to ½ month's production. Finished goods remain in warehouse, on an average, for 1 month. Suppliers of material extend 1 month's credit. Two month's credit is normally allowed to debtors. A minimum cash balance of Rs.25000 is expected to be maintained. The production pattern is assumed to be even during the year. Cash sales are 75% less than the credit sales. Safety margin 20%.
Required: Prepare a statement of working capital estimation.

Question No.5
Calculate the EOQ and the number of orders to be placed in a year in each of the following cases:

	Case A	**Case B**	**Case C**	**Case D**
Annual consumption	100000	160000	3600	520000
Cost of placing an order	Rs.50	Rs.200	Rs.40	Rs.100
Annual carrying cost	8%	25%	5%	6.5%
Price per unit of material	Rs.20	Rs.40	Rs.64	Rs.200

Question No.6
A trader whose current sales are Rs.250000 annually and an average collection period of 30 days. It is considering a more liberal credit policy. If the credit period is extended, the company expects sales and bad-debt losses to increase in the following manner.

Credit Policy	Increase in credit period	Increase in sales	Bad Debts (%)
A	33.33%	5%	1.2%
B	50%	7%	1.5%
C	100%	8%	1.8%
D	140%	10%	2.2%

The selling price per unit is Rs.4. Average cost per unit is Rs.3 & the variable cost per unit Rs.2.40. The current bad debt loss is 1%. Required rate of return on additional investment is 20%. Assume 360 days year.
Required: Which of the above policies would you recommend for adoption?

Question No.7 (A)
FPR is expected to pay a $0.60 dividend next year. The dividend is expected to grow at a 50% annually for 2 and 3, at 20% annually for year 4 and 5, and at 5% annually for year 6 and thereafter. If the required rate of return is 12%, what is the value per share?
Question No.7 (B)
Hanson PLC is selling for Rs.472. Hansen has a beta of 0.83, and the current dividend is $13.80. The risk free rate of return is 4.66%, and the risk premium is 4.92%. An analyst covering this stock expects the dividend to grow initially at 14% but to decline linearly to 5% over a 10 year period. After that, the analyst expects the dividend to grow at 5%. According to H-model valuation, is Hanson overpriced or underpriced?

Question No.8 (A)
Show the impact of six-for-five split on stock price, EPS and P/E ratio:

	Before Split	After Split
Number of shares outstanding	4 million	?
Market price	$40	?
Total Market Value (4 x $40)	160 million	?
EPS	$1.50	?
P/E		

Question No.8 (B)
Determine the market value of equity shares of company from the following information as Walter's Model:

Earnings of company	Rs.1000000
Dividend Paid	Rs.600000
Number of shares	200000
P/E Ratio	8
Rate of return on investment (r)	15%

Calculate Price of shares from above data also comment that you are satisfied with current dividend policy of firm.

Hint: k = 1 divided by P/E ratio