2017/EVEN/10/29/MBACC–208/080

PG Even Semester (CBCS) Exam., April—2017

BUSINESS ADMINISTRATION

(2nd Semester)

Course No. : MBACC–208

(Financial Management)

Full Marks : 70
Pass Marks : 28

Time : 3 hours

The figures in the margin indicate full marks for the questions

Answer **all** questions

1. Outline the factors behind Indian companies according greater importance to the goal of shareholders wealth maximization. 14

OR

2. What is agency problem? How do market forces act to prevent/minimize this problem? 4+10=14

3. *X* Ltd's income statement for the year is presented below :

Particulars	*Details* (₹)	*Amount* (in ₹)
Sales (200000 bottles @ ₹ 2·5 each)		5,00,000
Variables cost	3,00,000	
Fixed cost	1,00,000	4,00,000
Pre-tax profit		1,00,000
Less : taxes		35,000
Profit after tax		65,000

(a) What is the break-even point in amount and units?

(b) Suppose that a plant expansion will add ₹ 50,000 to fixed cost and increase capacity by 60%, how many bottles would have to be sold after the addition to break-even?

(c) At what level of sales will the company be able to maintain its present pre-tax profit position even after expansion?

(d) The management feels that it should earn at least ₹ 10,000 (pre-tax per annum) on the new investment. What sales volume is required to enable the company to maintain existing profits and earn the minimum required return on new investments? 3½×4=14

4. From the following projections of *Y* Ltd. for the next year, you are required to determine the working capital required by the company : 14

	(₹)
Annual sales	14,40,000
Cost of production (including depreciation of ₹ 1,20,000)	12,00,000
Raw material purchases	7,05,000
Monthly expenditure	30,000
Estimated opening stock of raw materials	1,40,000
Estimated closing stock of raw materials	1,25,000

Inventory norms :

Raw materials—2 months

Work-in-progress—½ month

Finished goods—1 month

The firm enjoys a credit of half-a-month on its purchases and allows one month credit on its supplies. On sales orders, the company receives an advance of ₹ 15,000. You may assume that production is carried out evenly throughout the year and minimum cash balance desired to be maintained is ₹ 35,000.

5. A company is considering an investment proposal to instal new milling controls at a cost of ₹ 50,000. The facility has a life expectancy of 5 years and no salvage value.

The tax rate is 30%. Assume the firm uses straight line method of depreciation and the same is allowed for tax purposes. The estimated cash flow before depreciation and taxes from the investment proposal is as follows :

Year	*CFBT* (in ₹)
1	10,000
2	10,692
3	12,769
4	13,462
5	20,385

Compute the following : 3½×4=14

(a) Payback period

(b) Average rate of return

(c) Internal rate of return

(d) Net present value at 10% discounted rate

OR

6. It is said that only cash costs are relevant for capital budgeting decision. However, depreciation which is a non-cash cost is prominent part of cash flow analysis for such an investment decision. How do you explain this paradox? 14

7. Explain the CAPM approach for computing the cost of equity. Discuss the merits and demerits of the approach. 6+8=14

OR

8. What are the assumptions and arguments used by Modigliani and Miller in support of the irrelevance of dividend? Are dividends really irrelevant? If not, what are the arguments for relevance of dividend policy? 6+2+6=14

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