Dr. Amit Kumar Srivastava

JAYPEE UNIVERSITY OF INFORMATION TECHNOLOGY, WAKNAGHAT

END TERM TEST

SUMMER SEMESTER - JULY 2016

B.Tech IV Semester

COURSE CODE:10B11PD411 MAX. MARKS: 50

COURSE NAME: Financial Management

COURSE CREDITS:03 MAX. TIME: 2 Hrs

Note: All questions are compulsory. Carrying of mobile phone during examinations will be treated as case of unfair means.

Q1. Answer the following in about 50 words.

a) How is degree of operating leverage estimated?
b) Explain the concept of arbitrage.
c) Why is Net working capital called as the financing definition of working capital?
d) Explain two disadvantages of Internal Rate of Return method of capital budgeting.
e) Does payback period method estimate the profitability of a project? Explain.

(2X5 Marks)

Q2. A company is considering raising Rs 2000000 to finance modernisation of its plant. The following three plans are feasible.

Plan I :- Issue 200000 equity shares of Rs 10 each.

Plan II :- Issue 100000 equity shares of Rs 10 each and 10000 14% debentures of Rs 100.

Plan III :- Issue 150000 equity shares of Rs 10 each and 5000 14% debentures of Rs 100.

a) If the EBIT of the company increases by Rs 250000 due to this modernisation , which of the three financing plans would you recommend?
b) What is the indifference point between plan I and plan II? (Tax rate to be considered at 40%)

(5+5 Marks)

Q3. a) Explain the NI and NOI approaches to capital structure.

b)Calculate the value of the firms X and Y, with and without taxes according to the MM hypothesis in the following case:

Firms X and Y are identical except for their capital structures. X is an all equity firm and Y has a debt of Rs 6 crores @ 10%. The EBIT for both the firms is Rs 3 crores. The market value of equity of X is 13 crores and Y is 9 crores. The debt of Y is valued at book value. Tax rate applicable to the firm is 40%.

(5+5 Marks)

Q4. A project costs Rs 400 lakh. It is expected to last for 8 years. The Profit Before Tax for each of the 8 years is expected to be Rs 52 lakh and the annual depreciation amunt is 45 Lakh. The firm pays tax @ 40%.

a) Calculate the NPV of the project if the cost of capital is 12%.
b) Calculate the Modified Internal Rate of Return (MIRR) of this project.

(5+5 Marks)

Q5. Estimate the working capital requirement of the organisation based on the information given below.

Production level: 10 lakh units   Selling price of 1 unit Rs 10

Ratio of cost to selling price is as : Raw material 40%, Direct wages 20%, Overheads 20%

The past data of the firm shows that raw material remains in stock for 3 months, work in process is for 2 months and is valued at full cost. Finished goods remain in the warehouse for 3 months. Credit allowed by creditors is 4 months while credit given to customers is 3 months.

The firm maintains a cash balance of Rs 150000. Wages and overheads are paid with a lag of 15 days.

(10 Marks)