MBA(TT)II/05.14.0552

B

MBA (TRAVEL AND TOURISM) DEGREE II SEMESTER EXAMINATION MAY 2014

SMT 2201 FINANCIAL MANAGEMENT

(Regular & Supplementary)

Time: 3 Hours | Maximum Marks : 50

(5 x 2 = 10)

1. What do you mean by finance function?
2. What is implicit cost of capital?
3. What is financial breakeven point?
4. What is IRR?
5. What is dividend decision?

PART B

(Answer ***ANY FIVE*** questions)

(5 x 4 = 20)

6. What is payback period? Also, discuss the utility of the payback period in determining the internal rate of return.
7. A company is considering the purchase of a delivery van and is evaluating the following two choices:

   (i) The company can buy a used van for ₹20,000, after 4 years sell the same for ₹2500 (net of taxes) and replace it with another used van which is expected to cost ₹30,000 having a life period of 6 years with no terminating value.

   (ii) The company can buy a new van for ₹40,000. The projected life of the van is 10 years and has an expected salvage value (net of taxes) of ₹5,000 at the end of ten years.

   The services provided by the vans under both choices are the same. Assuming the cost of capital 10 per cent, which choice is preferable?
8. A company has a choice of issuing 12% debentures or ₹100 Equity shares to raise ₹22 lakhs to meet its long-term investment requirements. Its current capital structure consists of 20,000 ordinary shares of Rs.100 each and 10% debentures of ₹10 lakhs and 12% preference shares of ₹10 lakhs. Determine the level of EBIT at which EPS would be the same whether the new funds are acquired by issuing ordinary shares by issuing 12% debentures. Tax rate is 35%.
9. A Ltd. earns ₹6 per share having capitalization rate of 10% and has a return on investment at the rate of 20%. According to Walter's Model, what should be the price per share at 30% dividend pay-out ratio? Is this the optimum pay out ratio as per Walter.
10. Explain the NOI approach capital structure theory.
11. Explain in detail net present value method.
12. 'Leverage is a double-edged sword', Commend.

PART C

(Answer ***ANY TWO*** questions)

(2 x 10 = 20)

13. A company is contemplating an issue of new equity shares. The firm's equity shares are currently selling at ₹125 a share. The historical pattern of dividend per share, for the last 5 years is given below:

Year	*Dividend (₹)*
1	10.70
2	11.45
3	12.25
4	13.11
5	14.03

The floatation costs are expected to be 3 per cent of the current selling price of the shares. You are requested to determine the following:

(a) Growth rate in dividends

(b) Cost of equity capital, assuming growth rate determined under situation (a) continues for ever.

(c) Cost of new equity shares.

14. The following is the data regarding two companies A and B belonging to the same risk class:

Particulars	*Company A*	*Company B*
Ordinary Shares	₹ 90,000	₹ 1,50,000
Market price/share	₹ 1.20	₹ 1.00
6% Debentures	₹ 60,000	₹ -
Profit before tax	₹ 18,000	₹ 18,000

All profits after debentures' interest are distributed as dividends. Explain how, under Modigliani and Miller Approach, an investor holding 10 per cent of shares in Company A will be better off in switching his holdings to Company B.

15. Explain the importance of working capital in a manufacturing organization. Discuss the different types and sources of working capital in detail.

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