Year	Rate of interest
1-2	5%
3-4	10%
5-7	15%

Assuming that the debenture are to be redeemed at 5% premium and the minimum required rate of return for the investor is 18%. Calculate the value of the debenture. 5

(b) "Financial decision making is the hallmark of financial management". In this light explain the core decision areas of finance manager. How do these decision areas involve risk return trade off? 5

Unit-II

4. (a) Explain the various types of dividend policies which can be followed by a company. 5

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Roll No. ____________

MS-3123

M.B.A. (F.C.) (Semester-II) Examination, 2015

Financial Decision & Policy

(FC-022)

Time Allowed : Three Hours] ***[Maximum Marks :70***

Note : Answer five questions in all. Question No. 1 carrying 30 marks is compulsory. In addition attempt one question from each of the four units.

1. Answer the following in brief: $3 \times 10 = 30$

(a) Explain the concept of minimum required rate of return.

(b) What is Retention Ratio?

(c) Explain 'Tax' as a factor affecting capital budgeting decision.

(d) Calculate the dividend per share of ABC Ltd. for the year 2015 using the Lintner's model:

EPS for 2015 = ` 3

DPS for 2014 = ` 1.50

Target payout Ratio = 60%

Speed of Adjustment = 0.7

(e) What is Vertical Merger?

(f) What are the types of financial planning.

(g) How is operating lease different from finance lease?

(h) What is the significance of ratio analysis?

(i) What is Share Exchange Ratio in merger?

(j) Determine the growth rate, if the current-price of share is ` 60 and the dividend per share is ` 5. The equity capitalization rate is 12%.

Unit-I

2. Risk-Return features of two securities X and Y are given below:

Security	Expected Return	σ	Weight of Security
X	12%	16%	50%
Y	20%	24%	50%

You are required to calculate :

(a) If the desired portfolio standard deviation is 20%, determine the correlation coefficient that would yield the desired level of risk.

(b) Find the portfolio standard deviation if X and Y are mixed in the ratio of 3:1. Comment on the results. 10

3. (a) X Ltd has to issue debenture with the face value of ` 100 per debenture and a maturity period of 7 years. The rate of interest on the debenture is as follows:

9. (a) List out the various sources of long term finance for a company? 5

(b) Explain two methods of assessing value of the target firm in case of merger. 5

(b) List out the factors affecting the capital structure design of a company. 5

5. X Ltd has a share capital of ` 100000 with a face value of ` 10 each. It requires an additional ` 50,000 to finance. It's expansion and is considering three alternative financial plans:

Plan I : Issue of 5,000 equity shares of ` 10 each.

Plan II : Issue of 500 preference shares of ` 100 each at 10% dividend.

Plan III : Issue of 10 % debentures of ` 50,000.

The company's EBIT after additional investment is ` 40,000 per annum. Tax rate is 50%. Advice the company as to which financial plan is most preferable. 10

Unit-III

6. (a) Explain the various steps involved in financial planning. 5

(b) Highlight the limitation of ratio analysis as a tool for financial planning. 5

7. From the following details furnished by Globe Traders for the year ended 31.03.2014. Prepare the balance sheet as on the date.

Current Ratio	1.75
Quick Ratio	1.25
Stock Turnover Ratio	9
Gross Profit Ratio	25%

Average collection period of credit sales 1½ months

Reserves and surplus : Capital - 0.2

Cost of sales : Fixed Assets - 1.2

Debt : equity - 0.6

Fixed Assets : Net worth - 1.25

The firm sells it's products only on credit.

Credit sales for the year ended 31.03.2014 amounted to Rs. 120 Lakhs. 10

Unit-IV

8. ABC Ltd. is considering to buy a machine costing ` 1,10,000, payable Rs. 10,000 down and balance in 10 annual equal instalments inclusive of interest chargable at 15%. Another option is to acquire the asset on a lease rental of ` 15,000 per annum for 10 years. As a financial manager, decide between these two options given that: 10

(i) Thwe Scrap value of ` 20,000 is realisable if the asset is purchased

(ii) The firm provides 10% depreciation on straight-line method.

(iii) Tax Rate is 50% and after tax cost of capital is 15%.

(iv) Payment of loan is to be made in 10 year end equal instalments of Rs.19,925.