DIRECTORATE OF DISTANCE EDUCATION
NALSAR UNIVERSITY OF LAW, HYDERABAD

Advanced Diploma in Financial Services & Legislations

PG Diploma in Financial Services & Legislations

Academic Year: 2022-2023

First Semester - End Semester Examination (January, 2023)

Paper III - 1.1.3. Financial Management

Duration of the Examination: 2 ½ hours **Total Marks : 70 marks**

INSTRUCTIONS TO CANDIDATES

a) **Read the instructions carefully and adhere to the same.**
b) **Please mention your DDE ID No., date of the exam, name of the programme & subject on the Answer Sheet and the Additional Answer Sheets, if any.**
c) **The questions to be interpreted as given and no clarification can be sought from the Invigilator.**
d) **Clearly indicate the question numbers while answering them. Answers without question numbers / wrong question numbers will not be evaluated.**
e) **Write the answers clearly and neatly. Answers in illegible handwriting will not be taken into consideration.**
f) **Candidates are prohibited to carry phones or any other electronic devices, books, material etc. in the Examination Hall.**
g) **Copying is strictly prohibited and is considered as a serious academic mis-conduct and the University will take action as it deems fit.**

Part – A

Answer any FIVE questions. **(5 X 10 marks = 50 Marks)**

1. Explain what ‘Shareholders Wealth Management’ is and how is it more comprehensive than ‘Shareholders Profit Maximization’?

2. “Net Present Value (NPV) and Profitability Index (PI) are two prominent Discounted Cash Flow (DCF) based Capital Budgeting Techniques adopted by an organization for supporting Investment Decision Making”. Briefly explain these two techniques for analyzing an investment opportunity. Also, explain the scenario of an investment opportunity ranking conflict between these two techniques and how is it proposed to be resolved?

3. What is your understanding of ‘Capital Structure’? Does Capital Structure of a Firm have any impact on ‘Value of a Firm’?

4. Define 'Permanent Working Capital' and 'Temporary Working Capital' in the context of Working Capital Management. Explain the impact on profitability and liquidity when a company adopts 'Aggressive Working Capital Management Approach' through an example.

5. Abhi Foods Ltd. has a total debt of Rs. 50 Lakhs and shareholders' funds of Rs. 75 Lakhs as on 31st March 2021. The pre-tax rate of interest serviced by the company on existing loans is at 11% per annum. The company raised Rs. 20 Lakhs as a secured loan from ICICI Bank at 12.5% per annum on 30th June 2021. It is estimated that rate of return expected by the shareholders of the company is at around 18% per annum. Calculate the Weighted Average Cost of Capital as on 31st March 2021 and 30th June 2021.

6. Zeta Ltd and Gamma Ltd are in the same industry with identical earnings per share for the last five years.

Year	**1**	**2**	**3**	**4**	**5**
EPS	**5.50**	**3.00**	**6.50**	**4.50**	**8.00**
MPS of Zeta Ltd	13	9	15	13.50	18
MPS of Gamma Ltd	15	13.50	17	17	20

Zeta Ltd has a Standard Dividend Policy of paying 40% of earnings as dividends, while the Gamma Ltd pays a constant amount of dividend of Rs. 2 per share. *(Face Value per Share of Both the companies is Rs. 10 per share)*

Calculate (a) payout ratio, (b) dividend yield and (c) earning yield of both companies. What can be done by Alpha Limited to increase the market price of its shares?

7. Indware Plastics Private Limited is considering a proposal to replace one of its plants costing Rs. 60,00,000 and having a written down value of Rs. 24,00,000. The remaining economic life of the plant is 4 years after which it will have no salvage value. However, if sold today, it has a salvage value of Rs. 20,00,000. The new machine costing Rs. 1,30,00,000 is also expected to have a life of 4 years with a scrap value of Rs. 18,00,000. The new machine, due to its technological superiority, is expected to contribute additional annual benefit (before depreciation and tax) of Rs. 60,00,000. Find out the cash flows associated with this decision given that the tax rate applicable to the firm is 25%. (Ignore capital gains tax).

Part – B

Answer the following Case Study **(1 X 20 marks= 20 Marks)**

Ceta Limited is a closely held private limited company engaged in the manufacture and sale of Footwear.

The following information is provided in this regard -

- **a)** Selling Price per Unit is fixed at Rs. 300/-. Selling Price includes Rs. 75/- towards profit (Cost of Production per unit is at Rs. 275/-).
- **b)** At the proposed level of operations, Raw Material Consumption per Unit is at INR 150/-, Direct Labour is at 75/- and Direct Overheads is at Rs. 50/-.
- **c)** Raw materials are in stock on average one month.
- **d)** Materials are in process is at an average 2 weeks.
- **e)** Finished goods are in stock, on average for one month.
- **f)** Credit allowed by suppliers of raw materials is at one month.
- **g)** Credit period offered to Customers (debtors) is at 2 months.
- **h)** Lag in payment of wages is one week and Lag in payment of overheads is one month.
- **i)** 20% of the output is sold against cash.
- **j)** Cash in hand and at bank is expected to be Rs. 60,000/-.

It is to be assumed that production is carried on evenly throughout the year. Time period of 4 weeks is equivalent to a month.

The Board of Directors are proposing to raise funds from SBI and have requested you to Prepare a forecasted 'Working Capital Assessment' statement for a level of activity of 1,75,000 units of production.

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