

Code No: MB1621/R16

MBA II Semester Regular/Supplementary Examinations, May/June-2019

FINANCIAL MANAGEMENT

Time: 3 Hours

Max. Marks: 60

*Answer Any FIVE Questions
All Questions Carry Equal Marks
Question No. 8 is Compulsory*

- | | | |
|------|--|----|
| 1. a | Explain the goals & objectives of Financial Management. | 6M |
| b | Write a brief note on the importance of financial management in business organization. | 6M |
| 2. a | Explain various decisions involved in Financial Management. | 4M |
| b | What is weighted average cost of capital? Examine the rationale behind the use of weighted average cost of capital? | 8M |
| 3. a | Explain various determinants of dividend. | 4M |
| b | Companies U and L are identical in every respect that the former does not use debt in its capital structure, while the latter employs Rs.6,00,000 of 15%debt. Assuming that (a)all the MM assumptions are met,(b) the corporate tax rate is50%,(c)the EBIT is Rs.2,00,000, and (d)the equity capitalization of the unlevered company is 20%, What will be the value of the firms, U and L? Also determine the weighted average cost of capital for both the firms. | 8M |
| 4. a | Explain the concept of Capital budgeting and what is its practical utility? | 6M |
| b | What are the various kinds of capital budgeting decisions? | 6M |
| 5. a | How far you agree that dividends are irrelevant? Explain with relevant examples. | 6M |
| b | The earnings per share of a company are Rs.16. The market rate of discount applicable to the company is 12.5%. Retained earnings can be employed to yield a return of 10%. The company is considering a pay-out of 25%,50% and 75%. Which of these would maximize the wealth of shareholders? | 6M |
| 6. a | What are the sources of bonus issue? Mention the circumstances that warrant the issue of bonus shares? | 6M |
| b | What is dividend pay-out ratio? How it will be calculated? | 6M |

7. a Describe the need and importance of working capital business? 6M
b ABC limited sells its products on a gross profit of 20% on sales. The following information is extracted from its annual accounts for the year ended 31st march 6M

	Rs.
Sales (3 months credit)	40,00,000
Raw materials	12,00,000
Wages(15 days in arrears)	9,60,000
Manufacturing expenses(one month in arrear)	12,00,000
Administration expenses(One month in arrear)	4,80,000
Sales promotion expenses (payable half yearly in advance)	2,00,000

The company enjoys one month's credit from suppliers of raw materials and maintains 2 months stock of raw materials and one and half month's finished goods. Cash balance is maintained at Rs.1, 00,000 as a precautionary balance. Assuming a 10% margin, find out the working capital requirements of ABC Ltd. Cost of sales for computation of debtors and stock of finished goods may be taken at sales minus gross profit as per rate of gross profit given.

8. **Case study:** 12M
A firm whose cost of capital is 10% is considering two mutually exclusive project X and Y, the details of which are:

	Year	Project-X(Rs.)	Project-Y(Rs.)
Cost	0	70,000	70,000
Cash inflows	1	10,000	50,000
	2	20,000	40,000
	3	30,000	20,000
	4	40,000	10,000
	5	60,000	10,000

Compute the Net present value at 10%, profitability Index, and Internal Rate Return for the two projects.
