Code No: MB1321/R13

MBA II Semester Regular/Supplementary Examinations, May- 2016

FINANCIAL MANAGEMENT

Time: 3 hours **Max. Marks: 60**

Answer any FIVE Questions
All Questions carry Equal Marks
*****

1. a What is Wealth Maximization and explain its relevance.
   b Explain the challenges of modern financial manager.

2. a Explain the concept of financial and operating leverage.
   b Define the concept of cost of capital. State how you would determine the weighted average cost of capital of a firm.

3. a Define capital budgeting and explain the process of capital budgeting.
   b Explain different methods of dividend.

4. From the following information you are required to estimate the net working capital.

Particulars	**Cost per unit**
Raw materials	400
Direct labour	150
Overheads (excluding depreciation)	300
Total cost	800
Additional information	
Selling price	Rs 1000 per unit
Output	52000 units per year
Raw material in stock	Average 4 weeks
Work in process(assume 50% completion stage with full material consumption)	Average 2 weeks
Finished goods in stock	Average 4 weeks
Credit allowed by suppliers	Average 4 weeks
Credit allowed to debtors	Average 8 weeks
Cash at bank is expected to be	Rs 50000

Assume that production is sustained at an even pace during the52 weeks of the year. All sales are on credit basis. State any other assumption that you might have made while computing.

5. a What is merger? Explain the different methods of mergers
   b Explain the role of financial management in government companies.

6. a Define inventory. Explain the techniques of inventory management.
   b Explain the factors determining the working capital needs

7. Goodshape company has currently and ordinary share capital of Rs.25 lakhs, consisting of 25,000 shares of Rs 100 each. The management is planning to raise another Rs 20 lakhs to finance a major programme of expansion through one of four possible financing plans. The options are:
   i. Entirely through ordinary shares.
   ii. Rs. 10 lakhs through ordinary shares and Rs 10 lakhs through long term borrowings at 8 per cent interest per annum.
   iii. Rs. 5 lakhs through ordinary shares and Rs15 lakhs through long term borrowings at 9 per cent interest per annum.
   iv. Rs.10 lakhs through ordinary shres and Rs 10 lakhs through preference shres with 5 per cent dividend.

   The company's expected earnings before interest and tax (EBIT) will be Rs 89 lakhs. Assuming a corporate tax rate of 50%, determine the earnings per share (EPS) in each alternative and comment on the implications of financial leverage

8. A company considering two mutually exclusive projects both require an initial investment of Rs. 50,000 each and have a life of five years. The cost of capital of the company is 10% and tax rate is 50%. The depreciation is charge on straight line methods. The estimated net cash inflows (before depreciation and tax) of the two projects are as follows:

Year	Project -A	Project -B
1	20000	30000
2	22000	27000
3	28000	22000
4	25000	25000
5	30000	20000

Which project should be accepted as per NPV and IRR methods?

*****