

MBAC 2001/MBLC 1003

M.B.A. DEGREE EXAMINATION,
DECEMBER 2015/JANUARY 2016.

Second Semester

General/ Marketing/ Finance/ IB/ HRM/ RM/ Tourism

FINANCIAL MANAGEMENT

(2012 – 13 Batches).

Time : Three hours

Maximum : 100 marks

PART A — (5 × 6 = 30 marks)

Answer any FIVE questions.

1. State the objectives of financial management.
2. Specify the significance of cost of capital.
3. What is capital rationing?
4. Define the terms operating, financial and combined leverage.
5. List the factors that determine the capital structure of a firm.

6. Define 'dividend'. What are its types?

7. What is an operating cycle?

8. What are the determinants of working capital?

PART B — (5 × 10 = 50 marks)

Answer any FIVE questions.

9. Discuss the various finance functions in detail.

10. How do you calculate weighted average cost of capital? Explain with suitable illustration.

11. ABC company has currently an equity share capital of Rs. 25 lakhs, consisting of 2500 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 the four possible financial plans.

The options are:

(a) Entirely through equity shares

(b) Rs. 10 lakhs through Equity shares and
Rs. 10 lakhs through long term borrowings,
at 8% interest per annum.

Which project proposal should be chosen and why?
Evaluate the project proposals using

- (a) Net present value method? (Assume $k = 10\%$)
- (b) Pay back period
- (c) Benefit cost ratio
- (d) Accounting rate of return.

(c) Rs. 5 lakhs through equity shares and Rs. 15 lakhs through long term borrowings at 9% per annum.

(d) Rs. 10 lakhs through equity shares and Rs. 10 lakhs through preference shares with 5% dividend.

The company's EBIT will be Rs.8 lakhs. Assuming a corporate tax rate of 50% determine the EPS in each alternative and comment which alternative is the best and why?

12. "Capital expenditure decisions are by far the most important decisions in the field of financial management". Elucidate.

13. "A company should try to have a balance of the two leverages". Do you agree?

14. (a) Calculate operating and financial leverage from the following data:

Sales	Rs. 5,00,000
Variable cost	Rs. 2,00,000
Fixed cost	Rs. 1,00,000
Interest	Rs. 50,000

(b) From the following particulars, compute

- (i) Net operating cycle period and Number of operating cycles in a year
 - (ii) The amount of working capital required/day.
- Period covered - 360 days
- Average period allowed by suppliers - 30 days.
- Average period allowed debtors - 45 days
- Raw materials consumed during the year Rs. 6,00,000
- Average stock of raw materials Rs. 50,000
- Work in progress inventory Rs.5,00,000
- Average work-in-process inventory Rs. 30,000
- Finished goods inventory Rs.8,00,000
- Average finished goods stock holds Rs. 40,000
- Total cost of sales Rs.8,40,000.

15. What are the assumptions and implications of MM approach? Explain elaborately.

16. Explain the different methods used to forecast the working capital needs of a company.

PART C — (1 × 20 = 20 marks)

17. Case Study : Compulsory

A choice has to be made between two competing projects which require an equal initial Investment of Rs.5,00,000 and are expected to generate net cash flows as under:

Particular	Project A	Project B
Initial cash outlay	5,00,000	5,00,000
Cash inflows:		
1 year	3,00,000	50,000
2 year	2,00,000	1,50,000
3 year	1,00,000	2,00,000
4 year	50,000	3,00,000
5 year	50,000	3,50,000