(h) Value of average stock maintained

| | | |
|---|---|---|
| (i) | Raw material | 320 |
| (ii) | Work-in-progress | 350 |
| (iii) | Finished goods | 260. |

16. Explain the significance and types of working capital.

PART C — (20 marks)

17. Case Study – Compulsory.

A manufacturing unit in Bangalore, which is producing computers and its accessories for past ten years. The performance of the company is growing year by year with increase in abnormal profit. The board of directors of the company decided to expand its business and market. The company is only having 100% equity investment till now as capital. The expansion of the business may need to explore different sources of finance including debt proposition in its capital structure.

(a) Chart out different sources of finance available for the company to restructure its capital structure.

(b) Discuss on different financial analysis to be carried out in making the capital restructuring process.



**MBAC 2001/MBLC 1003**

M.B.A. DEGREE EXAMINATION, JUNE 2017.

Second Semester

General

FINANCIAL MANAGEMENT

Time : Three hours Maximum : 100 marks

PART A — (5 × 6 = 30 marks)

Answer any FIVE questions.

1. State the importance of financial management.

2. The current market price of the shares of A Ltd. is Rs. 95. The floatation costs are Rs. 5 per share amounts to Rs. 4.50 and is expected to grow at a rate of 7%. You are required to calculate the cost of equity share capital.

3. Mention the merits and demerits of IRR method.

4. A company is considering an investment proposal, involving an initial cash outlay of 45,00,000. The proposal has an expected life 7 years and zero salvage value. At a required rate of return of 12 per cent, the proposal has a profitability index of 1.182. Calculate the annual cash inflows.

5. Illustrate the effect of the EBIT changes on EPS.

6. Distinguish between financial risk and business risk.

7. State the limitations of Walter's model.

8. What is the difference between gross and net working capital?

PART B — (5 × 10 = 50 marks)

Answer any FIVE questions.

9. Discuss different assumptions for computation of cost of capital.

10. A company issues Rs. 20,00,000, 10% redeemable debenture at a discount of 5%. The cost of floatation amount to Rs. 50,000. The debentures are redeemable after 8 years. Calculate before tax and after tax. Cost of debts assuring a tax rate of 55%.

11. Equipment A has a cost of Rs. 75,000 and net cash flow of Rs. 20,000 per year, A substitute equipment B would cost Rs. 50,000 and generate net cash flow of Rs. 14,000 per year for six years. The required rite of return of both equipments is 11%. Calculate the IRR and NPV for the equipment. Which equipment should be accepted and why?



12. What is meant by leverage? Explain the different methods of leverage.

13. What is MM dividend irrelevance hypothesis? Critically evaluate its assumptions.

14. Krishna company earns a rate of 12% on its total investment of Rs. 6,00,000 in assets. It has 6,00,000 outstanding common shares at Rs. 10 per share. Discount rate of the firm is 10% and it has a policy of retaining 40% of the earnings. Determine the price of its share using Gordon's model. What shall happen to the price of the share if the company has payout of 60% or 20%?

15. From the following information extracted from the books of a manufacturing company, compute the operating cycle in days and the amount of working capital required :

| | | |
|---|---|---|
| (a) | Period covered | 365 days |
| (b) | Average period of credit allowed by suppliers | 16 days |
| (c) | Average total of debtors outstanding | 480 |
| (d) | Raw material consumption | 4,400 |
| (e) | Total production cost | 10,000 |
| (f) | Total cost of sales | 10,500 |
| (g) | Sales for the year | 16,000 |