

MBAC 2001

M.B.A. DEGREE EXAMINATION, JANUARY 2021.

Second Semester

General (Common)

FINANCIAL MANAGEMENT

Time : Three hours

Maximum : 100 marks

PART A — (5 × 6 = 30 marks)

Answer any FIVE questions.

1. Financial management is essentially of a stewardship nature — Discuss.
2. Explain the approaches to financial management.
3. Discuss the different types of capital expenditure decisions required for construction and FMCG industry.
4. Analyse the process of capital budgeting for Government.

5. Raj Ltd., issues 10% debentures at par for a total value of Rs 10,00,000. The debentures are redeemable after 10 year at a premium of 10%. If the tax rate is 40%, compute the cost of debentures to the company before tax and after tax.
6. Calculate operating leverage for the Manu Ltd. of software industry from the given information and explain the answer in comparison to the Industry.
No. of units produced 50,000
Selling price per unit : Rs. 50
Variable cost per unit : Rs. 20
7. Explain how M-M hypothesis of dividend policy evolved.
8. What is “Conservative Approach” to working capital financing? How it differ from hedging approach?

PART B — (5 × 10 = 50 marks)

Answer any FIVE questions.

9. What are the basic financial decisions? How do they involve risk — return trade off?

10. Satyam industries ltd., has assets of Rs. 3,20,000.
The reserve funds are

Equity capital Rs. 1,80,000;

General reserve Rs. 36,000;

Debt Rs. 1,04,000.

The company total profits after interest and taxes for the year ended 31st march 2017 were 27,000. It pays 10% interest on its debts and is in the 50% tax bracket. The equity share capital consists of 1800 shares of Rs. 100 each. Current market price of the share is Rs. 150.

Calculate the Weighted Average Cost of Capital using market value and book value weights.

11. Reliance Ltd., is considering the purchase of one of the two machines. As the basis for selection, the following data were developed.

	Machines A (Rs.)	Machines B (Rs.)
Original cost	25,565	25,565
Profit after tax		
Year I	687	4,687
Year II	1,687	3,687
Year III	2,687	2,687
Year IV	3,687	1,687
Year V	4,687	678
	<u>13,435</u>	<u>13,435</u>

The expected rate of return for the company is 16%. Both the machines have a life of five years and will not have any salvage value. The company is in the 40% tax bracket.

You are required to calculate NPV and PV index. Suggest most profitable machine.

12. "There is nothing like an optimum capital structure for a firm". Critically examine the statement.
13. The following data related to Alliya Ltd., is given below:
Earnings per share Rs. 10
Capitalization rate 10%
Retention ratio 40%
Determine the price of the share under Walter's model and Gordon's model if the internal rate of return is
(a) 15%, (b) 10% and (c) 5%.
14. What is meant by stability of dividends? Discuss the determinants of dividend policy of a corporate enterprise.

15. What do you understand by business risk and financial risk? Explain in detail about these risks faced by transport and Hotel Industry.
16. Discuss the various approaches to determine an appropriate financial mix of working capital.

PART C — (1 × 20 = 20 marks)

Compulsory.

17. (a) What is large and small size of firms? Explain the different sources available for working capital for these firms. (10)
- (b) Assuming a year of 50 weeks of 5 days each, estimate the working capital requirements from the given data.

Sales: 1,50,000 units sold at Rs.1 per unit on credit.

Consumers are allowed 60 days credit.

Production cost:

Raw material	0.50
Labour	0.20
Expenses	0.25

The production cycle is 20 days and all materials are issued at the commencement of each cycle.

Credit allowed by suppliers 50 days

Credit required: One quarter of the remaining current assets.

Stock level:

Raw materials: 40 days of supply

Finished goods: 20 days of supply

Ignore work in progress. (10)
