Hall Ticket No | | | | | | | | | | | Question Paper Code: CMB008

MBA II Semester End Examinations (Regular) - May/June, 2018

Regulation: .–R16

FINANCIAL MANAGEMENT

Time: 3 Hours (MBA) **Max Marks: 70**

Answer ONE Question from each Unit
All Questions Carry Equal Marks
All parts of the question must be answered in one place only

UNIT – I

1. (a) Critically evaluate the goals of maximization of profit and maximization of return on equity. [7M]
   (b) "Maximization of wealth provides the more useful and meaningful guidance than the maximization of profits for the evaluation of financial action or decision". Do you agree? Explain. [7M]
2. (a) Explain the mechanism of calculating present value of cash flows giving suitable examples. [7M]
   (b) Calculate the present value of the following cash stream data shown in Table 1 if the discount rate is 14 per cent. [7M]

Table 1

Year	0	1	2	3	4
Cash flow	5000	6000	8000	9000	8000

UNIT – II

3. (a) Discuss about txraditional methods and its merits and demerits. [7M]
   (b) From the Table 2 capital structure of a company, calculate the overall cost of capital, using book value weights and market value weights. [7M]

Table 2

Source	Cost of Capital -%	Book Value	Market Value
Eq. Share Capital(Rs.10 shares)	14	45000	90000
Retained earnings	13	15000	30000
Preference share capital	10	10000	10000

4. (a) Discuss the procedure for determining the weighted marginal cost of capital. [7M]
   (b) The initial cash outlay of a project is Rs.50,000 and it generates cash inflows of Rs.20000, Rs.15000, Rs.25000 and 10000 in four years. Using present value index method, appraise profitability of the proposed investment assuming 10% rate of discount. [7M]

UNIT – III

5. (a) Examine the relationship between NI and NOI approach. [7M]
   (b) Babu Trading Company has sales of Rs.1 Lakh. The variable costs are 40% of the sales while the fixed operating costs amount of Rs.30000. The amount of interest on long term debt is Rs.10000. You are required to calculate the composite leverage and illustrate its impact if sales increase by 5%. [7M]

6. (a) Define financial leverage. Explain its importance. [7M]
   (b) Explain the concept of MM theory of capital structure. [7M]

UNIT – IV

7. (a) Define Dividend. Explain its determining factor under various Dividend theories. [7M]
   (b) Define working capital. Discuss the determinants of working capital [7M]

8. (a) Discuss the approaches for financing current assets. [7M]
   (b) Discuss the relevant approach on a dividend decision given by James Walter and its limitations. [7M]

UNIT – V

9. (a) Describe briefly the components of working capital. [7M]
   (b) XYZ company plans to achieve annual sales of 1,00,000 units for the year 2005. The following is the cost structure of the company as per the previous figures. [7M]

Materials	50%
Labour	20%
Overheads	10%

The following further particulars are available from the records of the company.

i. Raw materials are expected to remain in stores for an average period of one month before issue to production.
ii. Finished goods are to stay in the warehouse for two months on an average before being sold and sent to customers.
iii. Each unit of production will be in process for one month on the average.
iv. The credit allowed by the suppliers of raw material is one month from the date of delivery of materials.
v. Debtors are allowed credit for two months from the date of sale of goods
vi. Selling price per unit is Rs.9 per unit
vii. Production and sales follow a consistent pattern and there are no wide fluctuations.

Determine the quantum of working capital required to finance the activity level of 1, 00,000 unit for the year 2005.

10. (a) Define cash budget. Explain its importance in an organization. [7M]

(b) Economic Enterprises require 95000 units of certain items annually. The cost per unit is Rs.3. The cost per purchase order is Rs.300 and the inventory carrying cost is Rs.6 per unit per year.

i. What is EOQ? [7M]

ii. What should the firm do if the suppliers offer discounts as shown in Table 3:

Table 3

Order quantity	Discount
4500 – 5999	3 %
6000 and above	4 %

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