Hall Ticket No [ ] [ ] [ ] [ ] [ ] [ ] [ ] [ ] [ ] [ ] Question Paper Code: CMB008

MBA II Semester End Examinations (Supplementary) - December, 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) What is Financial Management? Explain any five objectives of Financial Management? [7M]
   (b) Assume the interest rate to be 12%. Compute the annual percentage / effective rate, if the period is: (i) Annual (ii) Semiannual (iii) Quarterly [7M]
2. (a) Differentiate profit maximization and wealth maximization [7M]
   (b) X invests Rs. 1,000 for 3 years in a savings account that pays 10% interest per annum. Calculate the future value. [7M]

UNIT – II

3. (a) Explain in detail any four advantages and three disadvantages of NPV method. [7M]
   (b) 20 years 20% debentures of a film are sold at a rate of Rs. 180. The face value of the debentures is Rs. 200, 50% tax is assumed. Find the cost of debt. [7M]
4. (a) Explain the procedure of Weighted Average Cost of Capital(WACC). [7M]
   (b) You are given with the following information relating to ABC Ltd., for the years of recent performance of an asset. Initial cash outlay – Rs. 50,000; life of the asset – 5 years; estimated annual cash flow – Rs. 12,500. Calculate the IRR in between 10% and 15%D.F. [7M]

UNIT – III

5. (a) What is Capital Structure? Discuss any six factors affecting Capital Structure. [7M]
   (b) Oriental Limited currently has ordinary share capital of Rs. 25,00,000 consisting of 25,000 equity shares of Rs. 100 each. The company's EBIT is Rs. 8,00,000. Assuming Corporate tax rate as 50%. The management is planning to raise another 20,00,000 to finance major expansion programme, through one of the four possible financial plans. Comment which of the alternate is the best and why?

   i. Entirely through ordinary shares

   ii. Rs. 10,00,000 through ordinary shares and res through 8% long term loan [7M]

6. (a) Briefly explain EBIT – EPS Analysis [7M]
   (b) Calculate the operating and combined leverage for the following data: [7M]
      i. Sales 5,00,000 units at Rs. 10 per unit
      ii. Variable cost per unit Rs. 3.50
      iii. Fixed charges Rs. 5,00,000
      iv. Interest charges Rs. 20,000

UNIT – IV

7. (a) What do you mean by dividend policy? Explain in detail the forms of dividend. [7M]
   (b) Hyderabad Paper Mills Ltd. belongs to a risk class for which the capitalization rate is 10%. The company has currently 50,000 shares selling at Rs. 100 each. The company is planning to declare a dividend of Rs. 5 per share. The company is expecting to have a net income of Rs. 5,00,000 and has a proposal for making new investments of Rs. 10,00,000. Show that under MM assumptions, the payment of dividends does not affect the value of the firm. [7M]
8. (a) What is stable dividend policy? Explain. [7M]
   (b) Genesis India Ltd., having earning earnings of Rs. 10 per share is capitalized at a rate of 15% and has a rate of return on investment of 20%. What would be the price per share at 25% dividend payout ratio according to Walter's model? [7M]

UNIT – V

9. (a) What is Working Capital? Discuss different principles of Working Capital. [7M]
   (b) Exon Ltd, has current sales of Rs. 6,00,000 per annum. To push the sales Exon considering a more liberal credit policy as one of the strategies. The current average collection period of the company is 30 days. Proposed increase in the collection period and their impact on sales are given in Table 1. Exon is selling the product at Rs. 10 each. Average cost per unit at the current level is Rs. 8 and variable cost per unit is Rs. 8 and variable cost is Rs. 6. If Exon requires a rate of return of 20% on its investments, which credit policy will you recommend? Assume 360 days a year. [7M]

Table 1

Credit Policy	Increase in collection period	Increase in sales	Default rate
I	15 days	Rs. 25,000	0.5%
II	30 days	Rs. 60,000	1.0%
III	40 days	Rs. 70,000	2.0%

10. (a) Discuss the sources of finance for meeting working capital requirement. [7M]

(b) The relevant financial information for Xavier Limited for the year ended 2011 is given below. What is the length of the operating cycle and cash cycle? Assume 365 days a year. Sales: Rs. 80 million [7M]

Cost of goods sold: Rs. 56 million

Inventory (beginning of the year) Rs. 9 millon

Inventory (end of the year) Rs. 12 millon

Accounts Receivables (beginning of the year) Rs. 12 millon

Accounts Receivables (end of the year) Rs. 16 millon

Accounts Payables (beginning of the year) Rs. 7 millon

Accounts Payables (end of the year) Rs. 10 millon

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