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

MBA II Semester End Examinations (Regular) - July, 2017

Regulation: .–R16

FINANCIAL MANAGEMENT

(Master of Business Administration)

Time: 3 Hours 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) Define the scope of financial management. What role should the financial manager play in a modern enterprise? [7M]

   (b) Why is the consideration of time important in financial decision making? How can time value be adjusted? Illustrate your answer. [7M]

2. (a) 'The profit maximization is not an operationally feasible criterion'. Do you agree? Illustrate your views. [7M]

   (b) Mr. Sai had annual earnings of Rs. 45,000 in 2011. By 2018, his annual earnings have grown to Rs. 67,550. What has been the compound annual rate of growth in his earnings? [7M]

UNIT – II

3. (a) Despite its weaknesses, the payback period method is popular in practice? What are the reasons for its popularity? [7M]

   (b) A project costs Rs.81,000 and is expected to generate net cash inflow of Rs. 40,000, Rs, 35,000 and Rs.30,000 over its life of 3 years. Calculate the internal rate of return of the project. [7M]

4. (a) Why should investment decisions be separated from financing decisions? Illustrate your answer. [7M]

   (b) A company has paid a dividend of Rs. 3 per share for last 20 years and it is expected to continue so in the future. The company's share had sold for Rs.33 twenty years ago, and its market price is also Rs.33. What is the cost of the share? [7M]

UNIT – III

5. (a) What is the degree of combined leverage? What do you think is the appropriate combination of operating and financial leverage? [7M]

   (b) A company has set its target debt-equity ratio at 1:1 and target payout ratio at 40%. The company wants to achieve a growth rate of 20% p.a. The company is expecting before tax return on assets of 21%. Its sales-to assets ratio is 1.8 times. The current interest rate is 12%. The corporate tax rate for the company is 35%. Can the company sustain its intended growth? What should it do to achieve the growth rate? [7M]

6. (a) Describe the traditional view on the optimum capital structure. Compare and contrast this view with the NOI approach and the NI approach. [7M]

(b) Empire Ltd needs Rs. 1,000,000 to build a new factory, which will yield EBIT of Rs. 150,000 per year. The company has to choose between two alternative financing plans: 75% equity and 25% debt or 50% equity and 50% debt. Under the first plan, shares can be sold at Rs. 50 per share and the interest rate on debt will be 14%. Under the second plan, shares can be sold for Rs. 40 per share and the interest rate on debt will be 16%. Determine the EPS for each plan assuming a 35% tax rate. [7M]

UNIT – IV

7. (a) 'The contention that dividends have an impact on the share price has been characterized as the bird-in-the-hand argument'. Explain the essential of this argument. Why this argument is considered fallacious? [7M]

(b) PolychemCo's current capital structure as on 31 march, 2016 is as follows: [7M]

Table 1

	Rs. Crore
Share capital (Rs.100 par, 2 crore shares)	200
Share premium	100
Reserves and surpluses	190
	490

The current market price of the company's shares is Rs. 140 per share. The EPS for the year 2015 was Rs.17., the company has been paying a constant dividend of Rs. 6.50 per share for the last ten years. What shall be the effect on EPS, dividend, share price and capital structure if the company

i. splits its shares two-for-one or
ii. declares a bonus issue of one-for-twenty?

8. (a) What are the different payout methods? How do shareholders react to these methods? [7M]

(b) A company earns Rs. 10 per share at an internal rate of 15%. The firm has a policy of paying 40% earnings as dividends. If the required rate of return is 10%, Determine the price of the share under [7M]]

i. Walter's model
ii. Gordon's model

UNIT – V

9. (a) Describe the important features of the Tandon Committee' s recommendations. [7M]

(b) A company has a 15% required rate of return. It is currently selling on term of net 10. The credit sales of the company are Rs. 120 crore a year. The company's collection period currently is 60 days. If company offered terms of "2/10, net 30", 60% of its customers will take the discount and the collection period will be reduced to 40 days. Should the terms be changed? [7M]

10. (a) What is the role of credit terms and credit standards in the credit policy of a firm? [7M]

(b) A company has a central billing system. Its daily collections on an average are Rs.500,000. The total time for administering the collection is 6 days. [7M]

i. If a firm's required rate of return is 10%, what is the cost of the system to the firm?

ii. If the management designs a lock-box system that reduces the lag by 3 days, what is the reduction in cash balances?

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