A

Subjt Code: R16MBA201

MBA - II Semester Regular and Supplementary Examinations, April-2018.

FINANCIAL MANAGEMENT

Time: 3 hours Max Marks: 60

Question Paper Consists of Part-A and Part-B.

Answering the question in Part-A is Compulsory & Four Questions should be answered from Part-B

All questions carry equal marks of 12.

PART-A (CASE STUDY)

1 X 12=12M

1. Fitwell Company is capitalised with Rs.50,00,000 consisting of 10,000 ordinary shares of Rs500 each. Additional finance of Rs.50,00,000 is required for an expansion programme launched by the company. The following four possible financing plans are under consideration:
   Plan A: Entirely through share capital, issuing 10,000 shares at Rs500 each
   Plan B: Entirely through debt capital at 13% per annum.
   Plan C: Rs 25, 00,000 through ordinary share capital and Rs. 25, 00,000 through debt capital at 12 % per annum.
   Plan D: Rs 25, 00,000 through ordinary share capital and Rs 25.00.000 through 10% preference Shares, by issuing 5,000 preference shares of Rs. 500 each.

   The company's existing EBIT amounted to Rs.6,00,000. By virtue of the increase in capitalisation, the EBIT are expted to be double the present level. Examine the impact of financial leverage of these four plans and calculate the EPS for the shareholders. In each case, assume 50% tax rate.

PART.B

4X 12 = 48

2. (a) Describe the evolution of Financial Management. 6M
   (b) Discuss briefly the functions of financial management. 6M

3. (a) Explain the investment dision process. 4M
   (b) A company is considering a new projt which requires a capital outlay of Rs.2,00,000. The tax rate is 50% and the forasted annual income before depriation and taxes are as follows:

Year	EBDIT(in RS)
1	1,00,000
2	1,00,000
3	80,000
4	80,000
5	40,000

   Calculate a) Payback period b) Accounting Rate of Return c) Net present Value of the projt at 10% . Depriation calculated on straight line basis. 8M

4. (a) What do you mean by Break even analysis of financial leverage? How is it calculated? 6M
(b) Explain importance and significance of operating leverage. 6M

5. (a) The following information is available from the balance sheet of a company:

Equity capital(20,000 shares @Rs10	Rs. 2,00,000
Reserves and Surplus	Rs 1,30,000
8% Debentures	Rs. 1,70,000

The tax rate for the company is 50%. Cost of equity is 12%. Calculate the weighted average cost of capital. 8M
(b) How can you determine cost of equity capital in a growth firm? 4M

6. (a) Explain the factors that determine the working capital requirements of a firm. GM
(b) What is the need for holding inventory? Why inventory management is important? 6M

7. (a) What are the essentials of Walter's dividend model? Explain its shortcomings. 8M
(b) Define i) Bonus Share ii) Share split 4M

***