R15

Code No: 721CM

JAWAHARLAL NEHRU TECHNOLOGICAL UNIVERSITY HYDERABAD
MBA II Semester Examinations, January-2018
FINANCIAL MANAGEMENT

Time: 3hours **Max.Marks:75**

Note: This question paper contains two parts A and B.
Part A is compulsory which carries 25 marks. Answer all questions in Part A.
Part B consists of 5 Units. Answer any one full question from each unit. Each question carries 10 marks and may have a, b, c as sub questions.

PART - A **5 × 5 Marks = 25**

1.a) Explain the importance of financial management? [5]
b) Explain the similarities and differences of results under NPV and IRR? [5]
c) Explain operating leverage with the help of an example and the formula in detail? [5]
d) Explain various steps involved in designing the dividend policy of a company? [5]
e) Explain EOQ Model with the help of an example? [5]

PART – B **5 × 10 Marks = 50**

2. What do you understand by financial management? Discuss the functional areas of financial management? [10]

OR

3. What do you mean by Discounting or Present Value Technique? Explain the relationship of finance with other business functions or disciplines? [10]

4. From the following information calculate the NPV of the two projects and suggest which of the two projects should be accepted assuming a discount rate of 10%

	ProjectX	ProjectY
Initial Investment	Rs20,000	Rs30,000
Estimated Life	5 Years	5 Years
Scrap Value	Rs1,000	Rs2,000

The profits before depreciation and after taxes (cash flows) are as follows: [10]

	Year 1	Year 2	Year 3	Year 4	Year 5
Project X	5,000	10,000	10,000	3,000	2,000
Project Y	20,000	10,000	5,000	3,000	2,000

OR

5. Explain the advantages and limitations of these terms:-
a) NPV
b) IRR [5+5]

6. ABC Ltd has sales of Rs 25, 00,000. The Fixed costs are Rs 4, 00,000 and variable costs are Rs 17, 00,000. The company uses a debt of Rs 10, 00,000@ 12% p.a.
From the available data calculate the operating, financial and combined leverages. [10]

OR

7. ABC ltd. has a share a capital of Rs10, 00,000 divided into 1, 00,000 equity shares of Rs10 each, fully paid. It has a major expansion program requiring an investment of another Rs 5, 00,000. The management is considering the following alternatives for raising this amount:
a) Issue of 50,000 equity shares of Rs10 each.
b) Issue of 50,000, 12% preference shares of Rs10 each.
c) Issue of 10% debentures of Rs 5, 00,000.

The company's present earnings before interest and taxes (EBIT) are Rs 4, 00,000 p.a you required to calculate the effect of each of the above modes of financing on the EPS (earnings per share), and suggest the best alternative. Assume tax rate at 50%. [10]

8.a) What do you mean by Dividend Policy? Explain the different types of dividend policies.
b) What do you mean by the term dividend? Explain Linter's Model in the context of dividend policy. [5+5]

OR

9. The following information is available in respect of a firm:
Capitalisation rate = 10%
Earnings per share = Rs50
Assumed rate of return on investments:
a) 12%
b) 8%
c) 10%
Show the effect of dividend policy on market price of shares applying Walter's formula when dividend payout ratio is (i) 0% (ii) 20% (iii) 40% (iv) 80% and (v) 100% [10]

10. Write short notes on the followings:
a) Cash Management in Business Organisation
b) Cash Management Process. [5+5]

OR

11. What do you mean by the term Inventory Management? Explain the techniques of managing the inventory? [10]

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