R15

Code No: 721CM

JAWAHARLAL NEHRU TECHNOLOGICAL UNIVERSITY HYDERABAD
MBA II Semester Examinations, December - 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) "Modern business scenario has been transformed rapidly". Find out the significance of finance function in the context of above statement. [5]
b) What are the advantages of low cost of capital on business? [5]
c) Define leverage with suitable example. [5]
d) Differentiate between gross working capital and net working capital? [5]
e) Discuss at least two motives of holding cash. [5]

PART - B **5 × 10 Marks = 50**

2.a) Differentiate between future value and present value.
b) What is balance in the account after 10 years if Rs. 2500 deposited today and the account earns 4% compounded quarterly, annually? [5+5]

OR

3. "Risk and return tradeoff have significant relationship in finance." Elucidate the above statement. [10]

4.a) What is capital budgeting ? What are the difference between NPV and IRR and which technique is preferably?
b) Differentiate between debt instrument and equity. [5+5]

OR

5. Moon Light Company Ltd. manufactures agricultural harvesters. The company has purchased new equipment for manufacturing tasks. The relevant information for net present value (NPV) analysis of investment in new equipment is given below:
• Cost of equipment: Rs.60,000
• Expected annual cost savings to be provided by new equipment: Rs.35, 000
• Useful life of the equipment: 5 years
• Salvage value at the end of 5 years: Rs. 1000
• Cost of capital: 15 %
• Expected inflation rate in cash flows associated with the new equipment: 10%
What would be the net present value (NPV) of new equipment? Should the new equipment be purchased? [10]

6.a) "Leverage results from using borrowed capital as a funding source when investing to expand the firm's asset base and generate returns on risk capital." Elucidate the statement.

b) Calculate the degree of operating leverage from the following data:
Sales: 1,50,000 units at Rs 4 per unit.
Variable cost per unit Rs 2.
Fixed cost Rs 1,50,000. [5+5]

OR

7.a) What are features of ideal capital structure.

b) What are differences between net income approach and net operating Income approach? [5+5]

8. Write Short notes on:
a) Walter's Dividend Model
b) Bonus Shares and Right Issue [5+5]

OR

9. From the following information you are required to estimate the net working capital:

Cost per unit	Rs.
Raw Materials	400
Direct labour	150
Overheads (excluding depreciation)	300
Total Cost	850

Additional Information:

Selling-Price	Rs.1, 000 per unit
Output	52,000 units per annum
Raw Material in stock	average 4 weeks

Work-in-process: (assume 50% completion stage with full material consumption) average 2 weeks

Finished goods in stock	average 4 weeks
Credit allowed by suppliers	average 4 weeks
Credit allowed to debtors	average 8 weeks

Cash at bank is expected to be Rs.50,000.

Assume that production is sustained at an even pace during the 52 weeks of the year. All sales are on credit basis. State any other assumption that you might have made while computing. [10]

10. "Good receivables management helps to prevent overdue payment or non-payment and increase the productivity of organizations". Elaborate the statement. [10]

OR

11. Discuss in details about the various methods of working capital financing. [10]

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