

R17 Code No: 742AC JAWAHARLAL NEHRU TECHNOLOGICAL UNIVERSITY HYDERABAD **MBA II Semester Examinations, December - 2019** FINANCIAL MANAGEMENT

www.FirstRanker.com

Time: 3hours

FirstRanker.com

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

- 1.a) Explain the goals of finance function.
 - What is weighted average cost of capital and marginal cost of capital? b)
 - What similarities are there between the risk-adjusted discount rate method and the c) certainty-equivalent method? [5]
 - What is 'informational content' of dividend payments? Explain. d)
 - A firm has been offered cash management service by a bank for Rs. 1,00,000 per year. e) It is estimated that such a service would not only eliminate 'excess' cash on deposits (Rs. 8,00,000) but also reduce its administration and other costs to the tune of Rs.5,000 per month. Assuming the cost of capital of 15 percent, is it worthwhile for the firm to engage the cash management service? [5]

PART - B

- 'The wealth maximization objective provides an operationally appropriate decision 2.a) criteria'. Discuss.
 - Explain briefly agency theory. b)
- OR A limited company borrows from a commercial bank of Rs. 10,00,000 at 12 percent 3.a) rate of interest to be paid in equal annual end-of- year installments. What would the size of the installment be? Assume the repayment period is 5 years.
 - Explain about sensitivity analysis. b)
- 4. A company is planning to purchase a machine to meet the increased demand for its products in the market. The machine costs Rs. 5,00,000 and has no salvage value. The expected life of the machine is 5 years, and the company employs straight line method of depreciation for tax purposes. The estimated earnings after taxes are Rs. 50,000 each year for 5 years. The after-tax required rate of return of the company is 12 percent. Determine the IRR. [10]

OR

- Z ltd. is forecasting a growth rate of 12 percent per annum in the next 2 years. The 5.a) growth rate is likely to fall to 10 percent for the third year and the fourth year. After that, the growth rate is expected to stabilize at 8 percent per annum. If the last dividend was Rs.1.50 per share and the investor's required rate of return is 16 percent, find out the intrinsic value per share of Z ltd as of date.
- Discuss the approach to determine the cost of retained earnings. b) [5+5]

Max.Marks:75

 5×5 Marks = 25

 5×10 Marks = 50

[5]

[5]

[5]

[5+5]

[5+5]

FirstRanker.com

	Liabilities	Amount	Assets	Amount
	Equity Capital(Rs.10 per share)	Rs.6,00,000	Net fixed assets	Rs.15,00,000
	10% Lon-term debt	Rs.8,00,000	Current assets	Rs. 5,00,000
	Retained earnings	Rs.2,00,000		
	Current liabilities	Rs.4,00,000		
	Total	Rs.20,00,000	Total	Rs.20,00,000
	The company's total assets turnove and the variable costs ratio is 40 pe a) Calculate all the three types of lo	er ratio is 3, its fi ercent. The incor everages.	ixed operating costs ne tax rate is 35 perc	are Rs.10,00,000 cent.
	b) Determine the likely level of EE	BIT if EPS is i) R OR	Rs.1 ii) Rs.3 and iii) z	zero. [10]
7.a)	Explain the relationship between le	everage and the o	cost of capital.	
b)	What is the indifference point in th	e EBIT-EPS ana	alysis? How would y	ou compare it? [5+5]
8.a)	What are the assumptions and argu	ments by Modi	gliani and Miller in s	support of
	the irrelevance of dividends? Are c	lividends really i	irrelevant? Discuss.	
b)	Explain the major forms of divider	nds.		[5+5]
0		OR		
9.	X Y Z Ltd information is given below Droduction of the year 60,000 units			
	Finished goods in store 2 months			
	Philished goods in store 2 mo	nonuns	n	
	Production process 1 month			
	Credit allowed by creditors 2 months			
	Credit given to debtors 3 months			
	Selling price per unit Rs 50			
	Raw material 50 percent of selling price			
	Direct wages, 10 percent of selling price			
	Manufacturing and administrative overheads, 16 percent of selling price			
	Selling over heads, 4 percent of selling price			
	There is a regular production and sales cycle and wages overheads accrue evenly.			
	Wages are paid in the next month the production cycle. Calculate the	of accrual. Mate	rial is introduced in	the beginning of
			requirement.	1101
	the production eyerer curculate the	, onling capital	1	

b) What are the limitations of ABC inventory control system? [5+5]

OR



www.FirstRanker.com

11. XYZ company is considering merging with the ABC ltd XYZ's shares are currently traded at Rs.25 and it has 2,00,000 shares outstanding and earnings of Rs.400,000; ABC has 1,00,000 shares outstanding and earnings of Rs.100,000. The merger will occur by means of a stock swap(exchange), ABC has agreed to a plan under which XYZ will offer current market value for ABC shares (i.e if XYZ's shares current market value is Rs.25 and that of ABC Rs.12.5, the exchange ratio will be Rs.25/Rs.12.5 =2)

a) What are the pre-merger earnings and P/E ratios of both the companies?

b)If ABC's P/E ratio is8, what is its current market price? What is the exchange ratio? What will XYZ's post-merger EPS be?

c) What must the exchange ratio be for XYZ's post-merger EPS to be the same as its EPS before the merger? [10]

--00000--

www.FirstRanker.com