

**R17****Code No: 742AC****JAWAHARLAL NEHRU TECHNOLOGICAL UNIVERSITY HYDERABAD****MBA II Semester Examinations, April/May-2019****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. Write short notes on the following:

- a) Risk-Return trade off [5]
- b) Cost of Equity capital [5]
- c) Financial Leverage [5]
- d) Trade Credit [5]
- e) Credit Policy [5]

**PART - B****5 × 10 Marks = 50**

2. Why is Wealth Maximization goal thought to be a better operating goal than profit maximization? [10]

**OR**

3. Write about:

- a) Goals of finance function
- b) Time value of money [5+5]

4. What is Cost of Capital? Explain the importance of cost of capital in capital budgeting decisions. [10]

**OR**

5. A company is considering investing in a project that cost Rs.4,00,000. The estimated salvage value is zero, tax rate is 55 percent. Depreciation is calculated based on straight line method. The projected cash flows before tax (CFBT) are as follows:

| Year       | 1        | 2        | 3        | 4        | 5        |
|------------|----------|----------|----------|----------|----------|
| CFBT (Rs.) | 1,00,000 | 1,20,000 | 1,50,000 | 1,70,000 | 2,50,000 |

Calculate:

- a) Net Present value at 10 percent cost of capital
- b) Internal Rate of Return
- c) Pay Back Period [10]

6. Explain the factors determining the dividend policy of a company. [10]

**OR**

7. The sales of Hasini Ltd. are 20000 units at the rate of Rs. 20 each. The variable cost per unit is Rs. 8 per unit. The fixed expenses are Rs. 50000. The company employs 10% debentures of Rs. 500000 in its capital structure. You are required to calculate

- a) Degree of operating leverage
- b) Degree of Financial leverage
- c) Degree of combined leverage [10]

8. What is Working Capital Management? What are the sources of Working Capital? [10]

**OR**

9. From the following information presented by a manufacturing company, prepare statement of working capital requirement. Expected sales are 1,20,000 units at the rate of Rs.100 per unit. The cost per unit in Rs. consists of:

|              |    |
|--------------|----|
| Raw material | 45 |
| Labour       | 22 |
| Overheads    | 13 |
| Profit       | 20 |

Raw material in stock, on average one month

Material in process, on average one month

Finished goods in stock, on average one month

Credit allowed to debtors is one month

Credit allowed by creditors is one month

Lag in payment of wages is two weeks

One fourth of the output is sold for cash. Cash in hand is Rs.80,000. [10]

10. Prepare cash budget for the three months starting from March 2019.

| Month          | Sales ( Rs.) | Purchases ( Rs.) | Wages ( Rs.) |
|----------------|--------------|------------------|--------------|
| January, 2019  | 3,20,000     | 2,60,000         | 40,000       |
| February, 2019 | 3,34,000     | 2,52,000         | 42,000       |
| March, 2019    | 2,92,000     | 3,46,000         | 38,000       |
| April, 2019    | 3,66,000     | 4,06,000         | 34,000       |
| May, 2019      | 2,22,000     | 4,28,600         | 30,000       |

a) 25 percent of the sales is on cash. 50 percent of the credit sales is realized in the month following sales and the remaining 50 percent of the credit sales in the second month following.

b) Creditors are paid in the month following the month of purchase.

c) Estimated cash at bank as on 1<sup>st</sup> March, 2019 is Rs.80, 000. [10]

**OR**

11. Discuss the techniques of cash management. [10]

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