Code: 18E00201

MBA (Fintech) II Semester Regular Examinations June 2019

FINANCIAL MANAGEMENT

(For students admitted in 2018 only)

Time: 3 hours Max. Marks: 60

All questions carry equal marks

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SECTION – A

(Answer the following: 05 X 10 = 50 Marks)

1 (a) Describe the two widely discussed objectives of financial management.

(b) Discuss agency problem arising from the relationship between managers and shareholders.

OR

2 (a) Outline the differences between long term and short term finance functions/decisions.

(b) Identify the three key activities of the financial manager.

3 (a) Elucidate the merits and demerits of time adjusted methods of evaluation the investment projects.

(b) State the reasons for the popularity of payback period method despite its weakness.

OR

4 Following data relate to two independent investment projects:

Projects	Initial Quality	Annual Cash Inflow (Rs)	Life in Years
A	500,000	125,000	8
B	120,000	12,000	15

Assume a 10 percent required rate of return. Rank these two investment projects according to each of the following criteria: (i) Payback period. (ii) Accounting rate of return. (iii) Net present value index. (iv) Internal rate of return.

5 (a) Enumerate the features of equity shares and debentures as a long term sources of finance.

(b) What are the effect of bonus share on the earnings per share and the market price of the share?

OR

6 (a) Form the information supplied to you, determine the appropriate weighted average cost of capital, relevant for evaluating long term investment projects of the company.

Cost of Equity : 12%

After tax cost of long term debt : 7%

After tax cost of short term debt : 4%

Sources of capital	Book value	Market value
Equity	Rs. 5,00,000	Rs, 9,00,000
Long term debt	Rs. 4,00,000	Rs. 3,75,000
Short term debt	Rs. 1,00,000	Rs. 1,00,000

(b) The ABC Refrigerator company is deciding to issue 2,000,000 of Rs 1,000, 14 per cent 7-year debentures. The debentures will have to be sold at a discount rate of 3 per cent. Further, the firm will pay an underwriting fee of 3 per cent of the face value. Assume a 35% tax rate.

Calculate the after-tax cost of the issue. What would be the after-tax cost if the debenture were sold at a premium of Rs 30?

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7 A proforma cost sheet of a company provides the following particulars:

	Amount per unit Rs
Raw material	80
Direct labour	30
Overheads	60
Total cost	170
Profit	30
Selling price	200

Further the following particulars are available:

(i) Raw material in stock, on an average one month; materials in process, on average half a month; finished goods in stock, on an average one month.

(ii) Credit allowed by suppliers is one month; credit allowed to debtors is two months; lag in payment of wages is one and a half weeks; lag in payment of overhead expenses is one month; one-fourth of the output is sold against cash; cash in hand and at bank is expected to be Rs 25,000. You are required to prepare a statement showing working capital needed to finance a level of activity of 104,000 units of production. You may assume that production is carried on evenly throughout the year and wages and overheads accrue similarly.

OR

8 (a) Discuss the factors that determine the need for working capital.

(b) Explain the basic motive of holding cash by the organization.

9 Enumerate the different types of mergers and the potential economic advantages from mergers.

OR

10 (a) Outline the motives of corporate mergers in India.

(b) Critically examine the SEBI takeover code.

SECTION – B

(Compulsory question, 01 X 10 = 10 Marks)

11 **Case Study:**

Howard company is considering three financing plans: all equity; 60 per cent equity and 40 per cent debt; and 40 per cent equity and 60 per cent debt. Total funds needed are Rs 300,000. EBIT is expected to be Rs 45,000. Shares can be sold at the rate of Rs 20 per cent share. Funds can be borrowed as follows: Up to and including Rs 60,000 at 14 per cent; Rs 60,000 to Rs 150,000 at 16 per cent and over Rs 150,000 at 18 per cent. Compute the EPS of each plan and suggest which plan would you choose and why? Assume a tax rate of 35 per cent.

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