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Code: 9E00202

MBA & MBA (Finance) II Semester Supplementary Examinations December/January 2015/2016

FINANCIAL MANAGEMENT

(For students admitted in 2011, 2012, 2013 & 2014)

Time: 3 hours Max. Marks: 60

Answer any FIVE questions
All questions carry equal marks

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1 Explain the following:
(a) Nature and scope of financial management.
(b) Profit vs wealth maximization.
(c) Risk returns trade off.

2 X Ltd plans to undertake a project for placing a new product in the market. The company's cut-off rate is 12 percent. It was estimated that the project would cost Rs.40,00,000 in plant and machinery in addition to working capital of Rs.10,00,000 which will be recovered in full when the project's 5 years life is over. The scrape value of the plant machinery at the end of 5 years was estimated at Rs.5,00,000. After providing for depreciation on straight line basis, profit after tax were estimated as follows:

Year	1	2	3	4	5
Pat (Rs.)	3,00,000	8,00,000	13,00,000	5,00,000	4,00,000

Evaluate the project under:
(a) Pay back method.
(b) ARR method.
(c) NPV method.

3 What is risk? Explain the sources of risk and the techniques available to measure the risk in capital budgeting decisions.

4 A company has the following capital structure on 31-12-2010.

Equity capital (a0000 shares)	10,00,000
10 percent preference share capital	2,50,000
14% debentures	7,50,000

The company's share is currently selling at Rs.20. Next year expected dividend is Rs.2 per share which will grow at 6 percent. The company is in the tax bracket of 50 percent. You are required to calculate:
(a) WACC based on the existing capital structure.
(b) New WACC if the company raises an additional capital of Rs.6,00,000 through debt at 15 percent.

5 "Assumptions of MM hypothesis are unrealistic" explain and illustrate.

6 X company is considering relaxing its collection efforts. Its present sale value is Rs.30 lakhs, its average collection period is 30 days, its expected variable cost to sales ratio is 0.75 percent, its cost of capital is 10 percent and bad debt ratio is 3 percent. Tax rate of X is 40 percent. Relaxation in collection efforts is expected to increase sales Rs.35 lakhs, increase average collection period to 50 days, and ratio of bad debts by 2 percent. What will be changes in the net profit?

7 Define and distinguish between the concepts of merger, take over and amalgamation. Illustrate your answer with suitable examples in the Indian context.

8 What is corporate governance? Explain the principles of good corporate governance.

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