

Code: 14E00204

MBA II Semester Supplementary Examinations December/January 2015/2016

FINANCIAL MANAGEMENT

(For students admitted in 2014 only)

Time: 3 hours

Max. Marks: 60

All questions carry equal marks

SECTION – A

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

- 1 Define financial management. Explain the nature and scope of financial management.
- OR**
- 2 Write short notes on: (a) Role of finance manager. (b) Profit maximization versus wealth maximization.
 - 3 A company is considering an investment proposal to install new machinery. The project will cost Rs.75,000. The machinery has a life of 5 years and has no scrap value. The company's tax rate is 30% and the cut-off rate is 10%. The firm uses straight line method of depreciation. The estimated cash flows before taxes (CFBT) from the proposed investment proposal are as follows:
- | | | | | | |
|--------|--------|--------|--------|--------|--------|
| Years: | 1 | 2 | 3 | 4 | 5 |
| CFBT: | 16,000 | 17,000 | 23,000 | 25,000 | 26,000 |
- The present value factors (PVF) at 10% discount rate are given below:
- | | | | | | |
|------------|-------|-------|-------|-------|-------|
| Years: | 1 | 2 | 3 | 4 | 5 |
| PCF @ 10%: | 0.909 | 0.826 | 0.751 | 0.683 | 0.621 |
- You are required to compute:
- (a) Account rate of return. (b) Net present value of the project.
- OR**
- 4 Under what circumstances do the net present value and internal rate of return methods differ? Which method would you prefer and why.
 - 5 The capital structure of ABC company is as follows:
 8% Debentures = Rs.15,00,000
 6% preference shares = Rs.5,00,000
 1,00,000 equity share capital of Rs.20 each = 20,00,000
 The expected dividend on equity share capital is Rs.2 per share which will grow at 7% forever.
 Corporate tax rate is assumed to be 50%.
 You are required to compute the weighted average cost of capital of ABC company.
- OR**
- 6 What is cost of capital? Discuss the different approaches to the computation of equity capital of a firm.
 - 7 How are the objectives of inventory management and cash management similar? Explain.
- OR**
- 8 Briefly explain: (a) Pipe-line theory. (b) Economic order quantity.
 - 9 What is merger? Enumerate the different types of mergers. What are the potential economic advantages from mergers?
- OR**
- 10 Examine the provisions of the Indian companies act governing corporate take-overs.

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SECTION – B

(Compulsory Question)

01 X 10 = 10 Marks

11 **Case study:** XYZ company has the following selected assets and liabilities.

- (i) Cash = Rs.30,000
- (ii) Favorable bank balance = Rs.15,000
- (iii) Retained earnings = Rs.1,60,000
- (iv) Equity share capital = Rs.1,50,000
- (v) Debtors = Rs.40,000
- (vi) Accounts payables = Rs.9,000
- (vii) Inventories = Rs.1,11,000
- (Viii) Debentures = Rs.1,00,000
- (ix) Provision for tax = Rs.57,000
- (x) Expenses outstanding = Rs.21,000
- (xi) Land and building = Rs.2,00,000
- (xii) Un-expired insurance = Rs.1,00,000
- (xiii) Goodwill = Rs.50,000
- (xiv) Furniture = Rs.25,000
- (xv) Accounts receivables = Rs.20,000
- (xvi) Creditors = Rs.30,000

You are required to calculate:

- (a) Gross working capital.
- (b) Net working capital.
