

Code: 14E00204

MBA II Semester Regular & Supplementary Examinations May 2016

FINANCIAL MANAGEMENT

(For students admitted in 2014 and 2015 only)

Time: 3 hours

Max. Marks: 60

All questions carry equal marks

SECTION – A

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

- 1 How should the finance function of an enterprise be organized? What functions do the financial officers perform?

OR

- 2 'The profit maximization is not an operationally feasible criterion'. Do you agree? Illustrate your views.

- 3 XYZ Ltd., is evaluating a project whose expected cash flows are as follows:

Year	0	1	2	3	4	5
CFAT (in rupees)	500000	150000	200000	250000	150000	100000

Evaluate the project according to:

(i) Return on investment method.

(ii) What is the NPV of the project, if the discount rate is 12% for the first year and raises every year by 2%? Assume straight line method of depreciation.

OR

- 4 What is capital budgeting? Discuss the time adjusted methods of appraising capital expenditure proposals.

- 5 What is cost of capital? Discuss the various elements of cost of capital.

OR

- 6 State the differences between borrowed funds and ownership funds.

- 7 Explain the various techniques of inventory management.

OR

- 8 You are required to estimate the working capital from the following details:

(i) Average amount locked-up for the stocks:

Stock of materials and stores – Rs 8000

Stock of finished goods – Rs 5000

(ii) Average credit given:

Inland sales (6 weeks) – Rs. 312000

Export sales ($1\frac{1}{2}$ weeks) – Rs. 78000

(iii) Lag in payment of wages and other outgoings:

Materials and stores ($1\frac{1}{2}$ month) – Rs. 48000Wages ($1\frac{1}{2}$ weeks) – Rs 260000

Rent and royalties (6 months) – Rs. 10000

Staff salaries ($1\frac{1}{2}$ weeks) – Rs. 62400Clerk salary ($1\frac{1}{2}$ weeks) – Rs. 4800Miscellaneous expenses ($1\frac{1}{2}$ weeks) – Rs. 48000

(iv) Sundry expenses paid quarterly in advance – Rs. 8000

(v) Undrawn profits on average throughout the year – Rs. 11000

(vi) You are instructed to add 10% to the computed figure to allow for contingencies.

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9 What is a merger? Enumerate the different types of mergers and also state its economic advantages.

OR

10 What is the corporate governance conditions pertaining to the board of directors of listed companies? Explain.

SECTION – B

(Compulsory Question)

01 X 10 = 10 Marks

11 **Case study:**

XYZ Co. Ltd has the following capital structure:

Rs. Equity capital	Rs. 40,00,000
Reserves and Surplus	Rs. 20,00,000
15% Debentures	Rs. 30,00,000
15% Long-term loans	Rs. 10,00,000

The market price of the company's share is Rs. 40 the company is to pay a dividend of Rs. 4 per share next year and the dividend will grow at 7% per year. The tax rate is 60%.

Compute weighted average cost of capital of the company.

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