

**Subject Code: MB1321/R13****M B A- II Semester Regular/Supply Examinations, Aug - 2015****FINANCIAL MANAGEMENT****Time: 3 hours****Max Marks: 60**Answer any **FIVE** of the followingAll questions carry equal marks. **Q.No.8 is compulsory**

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1. Define the need and scope of Financial Management in public utility.
2. Define Operating and Financial leverage. How can you measure the degree of operating and financial leverage? Give suitable example
3. The following information is available for two firms, Xmart and Ymart Corporation.

	Xmart	Ymart
Net Operating Income	Rs. 2,000,000	Rs. 2,000,000
Interest on Debt	Nil	500,000
Cost of Equity	15%	15%
Cost of Debt	10%	10%

- (a) Calculate the market value of equity, market value of debt and market value of the firm for Xmart Corporation and Ymart Corporation.
  - (b) What is the average cost of capital for each of the firms?
  - (c) What happens to the average cost of capital of Xmart Corporation if it employs Rs. 30 million of debt to finance a project that yields an operating income of Rs. 4 millions?
  - (d) What happens to the average cost of capital of Ymart Corporation if it sells Rs. 10 millions of additional equity (at par) to retire Rs. 10 million of outstanding debt?
- In answering the above questions assume that the net income approach applies and there are no taxes.
4. What is Capital Budgeting? And explain the phases of Capital Budgeting process.
  5. Equipment A has a cost of Rs. 75,000 and net cash flow of Rs. 20,000 per year for six years. A substitute equipment B would cost Rs. 50,000 and generate net cash flow of Rs. 14,000 per year for six years. The required rate of return of both equipment is 11%. Calculate the IRR and NPV for each equipment. Which equipment should be accepted and Why?

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