

Code No. : **9010**

FACULTY OF MANAGEMENT
M.B.A. II Semester Examination, December 2012/January 2013
FINANCIAL MANAGEMENT
(Course No. 2.3)

Time: 3 Hours]

[Max. Marks: 80

Note : Answer **all** questions.**SECTION – A****(10×2=20 Marks)**

1. a) State the functions of finance.
b) What is risk-return-trade off ?
c) What is pay-back period ?
d) What is probability tree approach ?
e) What are the long term source of finance ?
f) How to compute weighted average cost of capital ?
g) Define combined leverage.
h) What is working capital ?
i) What is dividend policy ?
j) State types of mergers.

SECTION – B**(5×12=60 Marks)**

2. a) Critically examine the concept of profit maximisation V/s wealth maximisation.
OR
b) Explain the significance of time value of money in business decisions.
3. a) Explain various techniques for evaluating long term investment projects.
OR
b) A firm whose cost of capital is 10% is considering two mutually exclusive projects X and Y, the details of which are :

Particulars	Projects	
	X ₹	Y ₹
Investment	70,000	70,000
Cashflows :		
Year – 1	10,000	50,000
– 2	20,000	40,000
– 3	30,000	20,000
– 4	45,000	10,000
– 5	60,000	10,000

Compute the net present value index at 10% and suggest the best project.



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4. a) Explain the determinants of optimal capital structure of a company.

OR

- b) X Co. Ltd., has currently an all equity capital structure consisting of 15000 shares of Rs. 100 each. The management is planning to raise another ₹ 25 lakhs to finance a major expansion programme and is considering three alternative methods of financing :

- i) To issue 25000 equity shares of ₹ 100 each
- ii) To issue 25000, 8% debentures of ₹ 100 each
- iii) To issue 25000, 8% preference shares of ₹ 100 each.

The company's expected earnings before interest and taxes will be ₹ 8 lakhs. Corporate tax is 50 percent. Determine the EPS and suggest the best finance plan.

5. a) Explain various theories relating to dividend policy and valuation of firm.

OR

- b) From the following information prepare a statement showing the working capital requirements.

Budget sales (₹ 10 per unit) ₹ 2,60,000 per annum

Analysis of one rupee of sales :

Raw materials	0.30
Direct labour	0.40
Overheads	0.20
Total cost	0.90
Profit	0.10
Sales	1.00

It is estimated that :

- 1) Raw materials are in stock for three weeks and finished goods for two weeks
- 2) Factory processing will take three weeks
- 3) Suppliers will give five weeks credit
- 4) Customers will require eight weeks credit.

It may be assumed that production and overheads accrue evenly throughout the year.

6. a) Discuss the economic rationality for corporate mergers and acquisitions in India.

OR

- b) Explain the need and significance of corporate governance.