

Code No. 5090

FACULTY OF MANAGEMENT
M.B.A. II – Semester Examination, July 2014**Subject : Financial Management**
Course No. : 2.3**Time : 3 hours****Max. Marks : 80****Note : Answer all questions.**
PART – A (10 x 2 = 20 Marks)

1 Write short notes on the following :

- | | |
|-------------------------|-------------------------|
| a) Future value | f) Operating leverage |
| b) Wealth Maximization | g) Inventory |
| c) Sensitivity analysis | h) Operating cycle |
| d) IRR | i) Merger |
| e) Average cost | j) Corporate governance |

PART – B (5 X12 = 60 Marks)

2 a) Briefly explain the objectives and scope of Financial Management.

OR

b) Do you support the concept of wealth maximization over profit maximization of a firm? Give reasons.

3 a) Explain the investment decision process.

OR

b) A firm is contemplating the following projects which one is better according to you?

<u>Year</u>	<u>Project A</u>	<u>Project B</u>
0	-100000	-100000
1	25000	35000
2	24000	20000
3	23000	24000
4	20000	23000
5	15000	18000

Closing NPV, PI and payback period evaluate the projects assuming a 10% discount rate.

4 a) Briefly explain atleast two theories of capital structure of your choice.

OR

b) A company is considering an investment proposal, involving an initial cash outlay of Rs.45 lakhs. The proposal has an expected life of 7 years and zero salvage value. At required rate of return of 12 per cent, the proposal has profitability index of 1.82. Calculate the annual cash inflows.

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- 5 a) List out the sources and factors dates mining working capital.

OR

- b) B Das Co. has been a fast growing firm and has been earning very high return on its investment in the past. Because of the availability of highly profitable investment. Internally, the company has been following a policy of retaining 70 percent of earnings and playing 30 percent of earnings as dividends. The company has now grown matures and does not have enough profitable internal opportunities to reinvest its earnings. But it does not want to deviate from its past dividend policy on the ground that investors have been accustomed to it and any change may not be welcome by them. The company thus invests retained earnings in the short-term government securities. Is the company justified in following the current dividend policy? Give reasons to support your answer.

- 6 a) What are the principles of good corporate governance?

OR

- b) What are the recent trends taken place in corporate reconstructing in India?

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