Code No. 2080

FACULTY OF MANAGEMENT

M.B.A. II-Semester Examination, July / August 2015

Subject: Financial Management
Course No : 2.3

Time : 3 Hours **Max. Marks: 80**

Note: Answer ALL the questions.
Part – A (10x2=20 Marks)
(Short Answer Type)

1 Write short notes on the following.

(a) Risk – Return trade off
(b) Certainty – equivalents
(c) Discounting factor
(d) NI Approach
(e) Financial leverage
(f) Motives of holding cash
(g) Forms of dividend
(h) EOQ
(i) Vertical merger
(j) Corporate Governance

Part – B (5x12=60 Marks)
(Essay Answer Type)

2 (a) What do you mean by financial management? Discuss the approaches to finance function.

OR

(b) Explain what is meant by agency relationships and and agency costs? How can the agency costs be mitigated?

3 (a) What is capital budgeting? Explain the process and techniques of capital budgeting.

OR

(b) Rao & Co. provides the following estimates to the present values of the future expected cash flows after taxes associated with investment proposal relating to the plant expansion.

PVCFAT (Rs)

Without expansion	With expansion	Probability
2,00,000	4,50,000	0.2
3,50,000	7,00,000	0.3
5,00,000	5,00,000	0.5

The plant expansion costs Rs.4,00,000. You are required to advice Rao & Co., regarding the financial feasibility on the investment with the use of decision tree approach.

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4 (a) Explain the problem faced in determining the WACC. How is it relevant to capital budgeting decision?

OR

(b) A company needs Rs. 12 lakhs for installation of new factory which would yield an annual EBIT of Rs.2.4 lakhs. The Co. has the objective of maximizing the EPS. It is considering the possibility of issuing of equity share of Rs. 10 each of Rs. 2 lakhs, Rs.6 lakhs or Rs. 10 lakhs. The current market price of share is Rs.40 which is expected to drop to Rs 25 per share of the market borrowings were to exceed Rs.7,50,000. The cost of borrowings is as follows : upto to Rs 2,50,000 at 10% p,a; between Rs.2,50,000 to Rs. 6,50,000 at 14% p.a.; between Rs.6,50,000 to Rs.10,00,000 at 16% p.a. Assume Tax rate of 50%.
Calculate EPS and which would be worth objective of Management.

5 (a) “Management of cash flows and preparation of cash budget plays a very important role in cash management”. Discuss.

OR

(b) A firm’s expected net earnings per share are Rs.20. Capitalisation rate of the firm is 16% and rate of return on investment is 17%. What shall be the share price of the firm has dividend payout ratio of (a) 50% ; (b) 75% ; (c) 100%
Assuming Gordon’s model applies.

6 (a) Explain the concept of corporate restructuring and how a corporate restructuring helps in maximizing the wealth of the shareholders.

OR

(b) Explain the methods for financial evaluation of mergers.

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