Code No. 1080

FACULTY OF MANAGEMENT

MBA II – Semester Examination, July / August 2016

Subject: Financial Management

Course No. 2.3

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

PART – A (10x2 = 20 Marks)
[Short Answer Type]

Note: Answer all the questions.

1. **Write short notes on the following.**
   a) Wealth maximization
   b) Time value of money
   c) Net Present Value
   d) Risk-return trade off
   e) MARAKON Approach
   f) Combined leverage
   g) Safety stock and reorder level
   h) Bonus shares
   i) Weighted Average cost of capital
   j) Horizontal merger

PART – B (5x12 = 60 Marks)
[Essay Answer Type]

Note: Answer all the questions using internal choice.

2 a) What are the major types of financial management decisions that business firms make? Describe each.

OR

b) ‘The profit maximization is not an operationally feasible criterion’. Do you agree? Illustrate your views.

3 a) What are DCF methods? Describe the process of calculating NPV for a project.

OR

b) A choice is to be made between two competing projects which require an equal investment of Rs. 50,000 and are expected to generate net cash flows as under:

	Project I	Project II
End of year 1	25,000	10,000
End of year 2	15,000	12,000
End of year 3	10,000	18,000
End of year 4	Nil	25,000
End of year 5	12,000	8,000
End of year 6	6,000	4,000

The cost of capital of the company is 10 percent. Compute the Net Present Value and Internal Rate of Return and suggest which project is acceptable.

..2

4 a) Explain the factors that determine the capital structure of a firm.

OR

b) A firm is considering 3 alternative financial plans to raise Rs. 10 lacs. EBIT is Rs. 1 lac, and tax rate is 50%. Calculate the EPS under each financial plan, from the details below:

a) Plan 1 Issue 1,00,000 equity shares with face value of Rs. 10 per share, issued at par.

b) Plan 2 Issue 50,000 equity shares with face value of Rs. 10 per share, issued at par, raise the balance of Rs. 5 lakhs through issue of debentures with 10% p.a. interest.

c) Plan 3 Issue 50,000 equity shares with face value of Rs. 10 per share, issued at par, issue 5000 preference shares at Rs. 100 per share, and dividend of 8% p.a.

5 a) What are dividend theories? Explain any two dividend theories.

OR

b) Economic Enterprises require 90,000 units of a certain item annually. The cost per unit is Rs. 3, the cost per purchase order Rs. 3000, and the inventory carrying cost is Rs. 6 per unit per year.

i) What is the Economic Order Quantity?

ii) What should the firm do if the supplier offers discount as below:

Order Quantity	Discount
4500-5999	2%
6000 and above	3%

6 a) Examine the economic rationale of mergers.

OR

b) What are the principles of good corporate governance?

****