Code No. 4541

FACULTY OF MANAGEMENT

M.B.A. II – Semester (CBCS) Examination, May / June 2018

Subject: Financial Management

Paper – MB – 202

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

Note: Answer all the questions from Part-A and Part-B.
Each question carries 4 marks in Part-A and 12 marks in Part-B.

PART – A (5x4 = 20 Marks)
[Short Answer Type]

1 What are the objectives of financial management?

2 Briefly explain the process of capital budgeting

3 What is EBIT – EPS analysis?

4 Explain the significance of stable dividends

5 .What are the advantages of merger?

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

6 a) What do you understand by financial decision? Discuss the major financial decisions.

OR

b) Mr. Anand has to receive Rs. 5,000 per year for 5 years. Calculate the present value of the annuity assuming that he can earn an interest of 12% on his investment.

7 a) "Capital budgeting is long term planning for making and financing proposed capital outlays". Explain.

OR

b) Kakatiya electrons Ltd. is considering the purchase of a machine. Two machines A and B are available, each costing Rs. 50,000. The cost of capital of the firm is 10%. The expected net cash flows are as follows. Calculate NPV. Which machine should be purchased?

Year	Cash flows from Machine A (Rs.	Cash flows from Machine B (Rs)
1	15,000	5,000
2	20,000	15,000
3	25,000	20,000
4	15,000	30,000
5	10,000	20,000

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8 a) What is meant by capital structure? What are the major determinants of capital structure?

OR

b) Calculate Operating, Financial and Combined leverage under situations I and II and financial plans A and B respectively from the following information relating to the operation and capital structure of a company.

Installed capacity	2000 units
Annual production and sales	50% of installed capacity
Selling price per unit	Rs. 20
Variable cost per unit	Rs. 10
Fixed cost: Situation-I Situation – I	 Rs. 4,000
Situation – II	Rs. 5,000

	Finance Plan A	Financial Plan B
Equity	Rs. 5,000	Rs. 15,000
Debt (Cost 10%)	Rs. 15,000	Rs. 5,000
Total	Rs. 20,000	Rs. 20,000

9 a) Define working capital? Discuss the need and importance of working capital for a manufacturing concern.

OR

b) A company belongs to a risk class of which the appropriate capitalization rate is 10 per cent. It currently has 1,00,000 shares selling at Rs. 100 each. The firm is contemplating the declaration of Rs. 6 dividend at the end of current financial year, which has just begun. Answer the following questions based on Miller and Modigliani model and the assumption of no taxes.

i) What will be the price of the share at the end of the year, if dividend is not declared? If it is declared?

ii) Assuming that the firm pays dividend, has a net income of Rs. 10,00,000 and makes new investment of Rs. 20,00,000 during the period, how many new shares must be issued?

iii) What will be the value of firm?

a) If dividend is not declared?

b) If it is declared?

10 a) What is corporate restructuring? State the forms in which it can be carried out.

OR

b) Discuss the principle of good corporate governance.

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