R09

Code No: 24

JAWAHARLAL NEHRU TECHNOLOGICAL UNIVERSITY HYDERABAD

MBA-II Semester Regular Examinations July 2010

FINANCIAL MANAGEMENT

Time: 3hours **Max.Marks:60**

Answer any Five questions

All questions carry equal Marks

- - -

1. Why are capital budgeting decisions important ? Discuss about the time adjusted methods of capital budgeting.
2. One project of a company is doing poorly and is being considered for replacement. There mutually exclusive projects A,B and C have been proposed. The projects are expected to require Rs.2,00,000 each and have an estimated life of 5years,4years and 3years respectively and have no salvage value. The company's required rate of return is 10 %. The anticipated cash inflows after taxes (CFAT) for the three projects are as follows;

CFAT

Year	A	B	C
1	Rs. 50,000	Rs.80,000	Rs.1,00,000
2	Rs. 50,000	Rs.80,000	Rs.1,00,000
3	Rs. 50,000	Rs.80,000	-----
4	Rs. 50,000	Rs.30,000	-----
5	Rs. 1,90,000		

(1) Rank each project applying the methods of payback period, Average rate of Return Net present value, Internal Rate of return and Profitability Index.

(2) Recommend the project to be adopted and give reasons.

3. Define financial and operating leverage. How do you measure the degree of operating and financial leverage? Explain with suitable example
4. From the following data you are required to determine the **weighted average cost of Capital** of KCP Ltd using (i) Book value weights and (ii) market value weights. The KCP Ltd 's present book value of capital structure is;

Cont….2

Debentures	Rs.100 per debenture	Rs. 8,00,000
Preference shares	Rs.100 per share	Rs. 2,00,000
Equity shares	Rs10 per share	Rs.10,00,000

		20,00,000

All these securities are traded in the capital markets. Recent prices are Debentures @110, Preference shares @Rs.120 and Equity shares @ Rs.22. Anticipated external financing opportunities are;

1. Rs.100 per debenture redeemable at par 20 year maturity, 8% coupon rate, 4% flotation costs, sale price Rs.100.
2. Rs 100 preference share redeemable at par 15 year maturity,10% dividend rate,5%flotation costs, sale priceRs.100
3. Equity shares Rs.2 per share flotation costs, sale price Rs.22

In addition, the dividend expected on the equity shares at the end of the year Rs.2 per share, the anticipated growth rate in dividend is 5% and the company has the practice of paying all its earnings in the form of dividends. The corporate tax is 50%.

5. Discuss the factors that determine the working capital needs of a firm

6. Priya cements Ltd. Sells its products on a gross profit of 20% on sales. The following information is extracted from its annual accounts for the year ended 31st December,2009.

	Rs.
Sales at 3 months credit	40,00,000
Raw material	12,00,000
Wages paid – average time lag 15 days	9,60,000
Manufacturing expenses paid – one month in arrears	12,00,000
Administrative expenses paid – one month in arrears	4,80,000
Sales promotion expenses – payable half yearly in advance	2,00,000

The company enjoys one month credit from the suppliers of raw materials and maintains a 2 months stock of raw materials and one and half month's stock of finished goods. The cash balance is maintained at Rs.1,00,000 as a precautionary measure. Assuming a 10% margin, find out the working capital requirements of Priya cements Ltd.

7. Explain briefly the techniques of inventory control used in manufacturing organizations.

8. State the reasons for cash flow problems and discuss about the methods of improving liquidity.

****