Registration no: | | | | | | | | | | |

Total Number of Pages:03 **MBA**

15MNG203

2nd Semester Regular / Back Examination 2016-17
FINANCIAL MANAGEMENT
BRANCH: MBA
Time: 3 Hours
Max Marks: 100
Q.CODE:Z516
Answer Question No.1 & 2 which is compulsory and any four from the rest.
The figures in the right hand margin indicate marks.

Q1 **Answer the following questions:** (2 x 10)

(a) What is the modern approach of finance function?
(b) What is financing decision?
(c) What are the special features of Internal Rate of Return?
(d) What is weighted average cost of capital?
(e) Explain the importance of leverage.
(f) Sales of a company are Rs.7,00,000. Variable Costs Rs.5,00,000 and fixed costs Rs.1,50,000. Find out operating leverage.
(g) What is meant by optimum capital structure?
(h) Explain the relevance concept of dividend policy
(i) What are the internal short-term sources of working capital?
(j) Explain operating cycle.

Q2 Choose the best alternative (2x10)

(a) In value maximization objective, 'Value' signifies:
(i) Value of net assets, (ii) Market value of equity shares (iii) Both (i) & (ii) (iv) Social Welfare
(b) What will be the net present value of a project, if initial investment Rs.25,000; cash inflows Rs.10,000 p.a. for three years; present value of Re.1 as per annuity table @ 8% upto 3 years 2.577?
(i) Rs.5,000 (ii) Rs.30,000 (iii) Rs.770 (iv) Rs.25000
(c) High cost of capital is the evidence of:
(i) Low Income of the business (ii) Too much risk (iii) Unbalanced capital structure (iv) All the above
(d) The function of financial leverage is:
(I) Financial arrangement, (ii) Debt redemption (iii) Analysis of effect of fixed charges bearing sources of capital on profits (iv) Effect of equity share capital on profits.
(e) Implicit costs arise, when:
(i) There is cash inflow (ii) The funds are utilized (iii) The funds are acquired (iv) None of the above
(f) High gearing means:
 (i) Equity share capital is less than fixed interest bearing capital
 (ii) Equity share capital is more
 (iii) Both are equal

(iv) Gearing is not related to capital structure

(g) Which of the following is not Walter's model assumption:
   (i) The company has a very long or perpetual life.
   (ii) All earnings are either reinvested internally or distributed as dividend
   (iii) There is no floating cost for the company
   (iv) None of these

(h) Excess of working capital is evidence of
   i. Advanced credit
   ii. Demand of the product
   iii. Idle funds
   iv. None of these

(i) Which pair of C's is not relevant while assessing credit worthiness of a customer?
   (i) Character and Capacity (ii) Capital and Conditions (iii) Competition and Closeness (iv) None of the above

(j) Given: Annual consumption of materials 2,000 units; ordering cost per order Rs.30; Annual cost of carrying one unit Rs.3. Economic order quantity is:
   (i) 150 units (ii) 200 units (iii) 100 units (iv) None of these

Q3 Cost sheet of a company (cost/unit) (15)

Raw Material	Rs.52.00
Direct Labour	Rs.19.50
Overhead	Rs.39.00
Total Cost	Rs.110.50
Profit	Rs.19.50
Following additional information:	
1.Raw material in stock	1 month
2.Material in process	½ month
3.Credit allowed by suppliers	1 month
4.Credit allowed to Debtors	2 months
5.Time lag in payment of wages	10 days
6.Time lag in payment in	One month
7.1/4 of sales in cash basis.	
8. Cash balance expected to be maintained is Rs.1,20,000.	

Prepare statement showing working capital required to finance a level activity of 70,000 units. Finished goods on an average stay in the godown for one month. Assume production takes place throughout evenly and wages and overheads occur similarly 1 year = 360 days.

Q4 a What is meant by Financial Leverage? How does it magnify the revenue available for equity shareholders? (15)

b A firm has sales of Rs.20,00,000 variable cost of Rs.14,00,000/- fixed cost Rs.4,00,000/- and 10% debentures of Rs.10,00,000/- in its capital structure . What are its financial leverage, operating leverage , and combined leverage?

Q5 Define the term working capital. What factors would you take into consideration in estimating the working capital needs of a concern? (15)

Q6 The following details relate to two machines A and B (15)

	Machine A	Machine B
Initial cost	Rs 1,12,250	Rs 1,12,250
Estimated Life	5 years	5 years
Salvage Value	Rs 6000	Rs. 6000

Annual Income after tax and depreciation;

Year	**Rs.**	**Rs.**
1	6,750	22,750
2	10,750	18,750
3	14,750	14,750
4	18,750	10,750
5	22,750	6,750

Overhauling charges at the end of 3^{rd} year will be Rs 20,000 in the case of Machine A and Rs 10,000 in case of Machine B. Depreciation has been charged at straight line method. Discounting rate is 10% and the PVF are: 0.909, 0.826, 0.751, 0.683 and 0.621 respectively. Suggest which machine should be used?

Q7 a. Explain the relationship between capital structure and value of the firm. (15)

b. A company is having EBIT Rs.1,00,000. Borrowed debt @10 % Rs.5,00,000 and overall capitalization (k) rate is 12.5%. What would be the value of the company and equity capitalization rate?

(15)

Q8 'Traditionally, the role of Finance Manager was restricted to acquisition and efficient allocation of funds." Do you agree with this view? Justify your answer.