Registration No :

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MBA

15MNG203

2^{nd} Semester Regular / Back Examination 2017-18

FINANCIAL MANAGEMENT

BRANCH : MBA

Time : 3 Hours

Max Marks : 100

Q.CODE : C714

Answer Question No.1 and 2 which are compulsory and any four from the rest.

The figures in the right hand margin indicate marks.

Answer all parts of a question at a place.

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

a) Under which capital structure theories the share holders value maximization concept holds good ?

b) What do you mean by Discounted Payback period? How is it different from Pay Back Period?

c) State the residual reserve criterion of Bonus share issue. What is the mathematical equation to derive the bonus ratio?

d) What do you mean by Credit standard and credit terms?

e) The annual requirement of inventory of a firm is 2700 units. If the ordering cost is Rs 50 and Carrying cost per unit is Rs 3, compute the EOQ.

f) Explain stock split and reverse split with example.

g) What do you mean by matching policy of the working capital financing?

h) How do you compute the cost of redeemable preference share?

i) What is IRR method of evaluating investment decisions? Mention the acceptance rules under this method.

j) What is meant by Trading on Equity ?

Q2 Fill in the gaps with appropriate answer : **(2 x 10)**

a) The discount rate that equates the present values of the investment's cash inflows and cash outflows is known as ------------------ (NPV, IRR, PI,ARR)

b) The remaining reserves after amount capitalised for bonus issue should be at least -------------% of the increased paid up capital.(20%,30%,40%,50%)

c) When the firm finances its permanent assets and part of temporary current assets with long term financing the working capital approach is ------------------ approach. (Matching, aggressive, conservative, constant)

d) The percentage change in EBIT to a given percentage change in sales is known as Degree of --------------------(Operating leverage, financial leverage, combined leverage, debt leverage)

e) The dividend irrelevance theory that under a perfect market situation the dividend policy does not affect the value of the firm was propagated by------------------. (Walter, Gordon,Miller-Modigliani,)

f) The Baumol's model of cash management provides a formal approach for determining the firm's optimum cash balance under-----------------. (Uncertainty, Certainty, all circumstances)

g) While calculating EOQ, the expenses related to godown rent and electricity come under-----------------. (Inventory cost, Carrying cost, Ordering cost, godown cost)

h) The Degree of Operating Leverage of a firm is ---------------when Total Sales is Rs 5,00,000, Variable cost is Rs 3,00,000 and Fixed cost is Rs 1,00,000. (2 , 3 , 4 , 5)

i) A company decides to sell a 7 year 16% Debenture of 100 each at par. The cost of Debt (Kd) is--------------(7%, 2.3%, 16%, 6.25%)

j) The present value of Rs 800 received after 15 years at discount rate of 5% when PVIF(15, 0.05)= 0.481 (Rs600, Rs384.80, Rs 120, Rs 367.40)

Q3 The statement of cost of Ambani Refractories Ltd. Is given hereunder. The current level of production is 10,000 units. Estimate the working capital requirement. **(15)**

Raw Material per unit	Rs.30
Direct wages per unit	Rs.20
Overheads per unit	Rs.25
Total cost	Rs.75
Profit	Rs.15
Selling price per unit	Rs.90

The time lags of different components of operating cycle are as under:

1) Time lag for raw material in stock is one month
2) Time lag for raw material in process is two months
3) Time lag for stock of finished goods is one month
4) Credit allowed to debtors two months
5) Credit allowed by creditors one month
6) Deferral period of wages half month
7) Deferral period of overheads one month
8) Estimated Cash requirement for working capital Rs.50,000.

Q4. Discuss the theory of relevance of capital structure under Net Income (NI) approach. Compare and contrast this view with Net Operating Income (NOI) approach. Illustrate your answer with hypothetical examples with different degrees of leverage. **(15)**

Q5 The financial manager of Trivago company has to advise the Board of Directors on choosing between two alternative project proposals Project A and Project B. The projects are expected to generate cash flows as under: **(15)**

Year	**project-A**	**project-B**
0	(-) 1,00,000	(-) 1,00,000
1	48,000	20,000
2	32,000	24,000
3	20,000	36,000
4	nil	48,000
5	24,000	16,000
6	12,000	8,000

Which project proposal should be recommended as per NPV method? Assume the cost of capital to be 10% p.a. The following are the present value factors at 10% per annum.

Year :	1	2	3	4	5	6
Factor :	0.909	0.826	0.751	0.683	0.621	0.564

Q6

a) In what ways is the wealth maximisation objective superior to the profit maximisation objective? **(5)**

b) Discuss how the financing, investment and dividend decisions of a company can help to attain the Wealth Maximization objective of Financial Management. **(10)**

Q7	Describe the assumptions and application of Walter's Dividend theory of relevance. Explain the model from the following information under the given payout conditions. Cost of Capital: 10 percent Earnings per share: Rs.5 per Share Expected rate of return: 15 percent What will be the market price of the share, if the dividend payout ratio is 0 percent, 50 percent and 100 percent?		**(15)**
Q8	**Write notes on : (Any THREE)**		**(5 x 3)**
	a)	Combined Leverage	
	b)	WACC	
	c)	Time value of money	
	d)	Profitability Index	