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14MBA22

## Second Semester MBA Degree Examination, June/July 2017

### Financial Management

Time: 3 hrs.

Max. Marks: 100

*Note: Present and Future value tables may be allowed.*

#### SECTION - A

*Note : Answer any FOUR questions from Q.No.1 to Q.No.7.*

- 1 What is behavioural finance? (03 Marks)
- 2 Who is an "angel investor"? (03 Marks)
- 3 What are the objectives of financial management? (03 Marks)
- 4 State the difference between gross operating cycle and net operating cycle. (03 Marks)
- 5 What is internal rate of return? (03 Marks)
- 6 Differentiate between capital structure and financial structure. (03 Marks)
- 7 Enumerate on 'derivatives market'. (03 Marks)

#### SECTION - B

*Note : Answer any FOUR questions from Q.No.1 to Q.No.7.*

- 1 Distinguish between capital market and money market. (07 Marks)
- 2 Explain the factors affecting working capital requirements. (07 Marks)
- 3 Explain the role of a financial manager in the current volatile environment. (07 Marks)
- 4 Rao and Rao Associates Balance Sheet is as follows:

Liabilities	Amt	Assets	Amt
Equity capital @ Rs.10	60000	Fixed Assets	150000
10% long term debt	80000	Current Assets	50000
Retained earnings	20000		
Current liability	40000		
	200000		200000

The companies total assets turnover in 3. Its fixed operating costs are Rs.100000 and its variable cost ratio is 40%. Income tax rate is 50%. Calculate the leverages. (07 Marks)

- 5 An executive is about to retire at the age of 60. His employer has offered him two post retirement options.
  - i) Rs.20,00,000 lumpsum
  - ii) Rs.2,50,000 p.a. for 10 years.
 Assuming 10% interest rate which is the better option? (07 Marks)

- 6 From the following data, compute the duration of the operating cycle for each of the two years.

Particulars	Year 1 (Rs.)	Year 2 (Rs.)
Stocks: Raw material	20,000	27,000
Work in progress	14,000	18,000
Finished goods	21,000	24,000
Purchase of raw materials	96,000	1,35,000
Cost of goods sold	1,40,000	1,80,000
Sales	1,60,000	2,00,000
Debtors	32,000	50,000
Creditors	16,000	18,000

Assume 360 days per year for computation purposes.

(07 Marks)

- 7 What is dividend policy? What are the factors affecting the dividend policy?

(07 Marks)

### SECTION - C

*Note : Answer any FOUR questions from Q.No.1 to Q.No.7.*

- 1 What is capital budgeting decision? Explain the techniques of capital budgeting and its respective limitations. (10 Marks)

- 2 ABC Ltd. has the following capital structure:

4000 equity shares of Rs.100 each	Rs.400000
10% preference shares	Rs.100000
11% debentures	Rs.500000

The current market price of the share is Rs.102. The company is expected to declare a dividend of Rs.10 at the end of current year, with an expected growth rate of 10% tax rate is 50%.

- i) Find out the cost of equity capital and the WACC.
  - ii) Assuming that the company can raise Rs.300000, 12% debentures find out the new WACC if (i) dividend rate is increased from 10 to 12%, (ii) growth rate reduced to 8%, (iii) market price Rs.98. (10 Marks)
- 3 Explain how wealth maximization is better than profit maximization for any business today. Briefly explain the scope of financial management. (10 Marks)
- 4 Discuss the various the sources of financial management. (10 Marks)
- 5 Answer the following:
- i) A bank offered you an annuity of Rs.1800 for 10 years if you invest Rs.12000 today. What rate of return would you earn?
  - ii) XYZ bank pays 12% and compounds interest quarterly. If Rs.1000 is deposited initially, how much shall it grow at the end of 5 years. (10 Marks)
- 6 Briefly enumerate on Indian financial system. (10 Marks)
- 7 Write short notes on the following:
- i) Risk management
  - ii) Mergers and acquisitions
  - iii) Financial modelling (10 Marks)

**SECTION - D**  
**CASE STUDY – [ Compulsory ]**

A company is considering the replacement of its existing machine which is obsolete and unable to meet the rapidly rising demand for its product. The company is faced with 2 alternatives (i) to buy machine A which is similar to the existing machine or (ii) to go in for machine B which is more expensive and much greater capacity. The cash flows at the present level of operation under the 2 alternatives are as follows:

	0	1	2	3	4	5
Machine A	-25	-	5	20	14	14
Machine B	-40	10	14	16	17	15

The company's cost of capital is 10%. Evaluate the projects by calculating the following and recommend which would be the feasible investment.

- i) Net present value
- ii) Profitability index
- iii) Payback period
- iv) Discounted payback period

Note: Present values of Re.1 @10% discount rates are as follows:

Year	0	1	2	3	4	5
PV	1.00	0.91	0.83	0.75	0.68	0.62

(20 Marks)

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