

Code: BA2T1

**I MBA - II Semester - Regular Examinations - JULY 2016**

**FINANCIAL MANAGEMENT**

Duration: 3 hours

Max. Marks: 70 M

**SECTION-A**

**1. Answer any FIVE of the following:**

**5 x 2 = 10 M**

- a. Financing function
- b. Cost of equity
- c. Share splits
- d. Operating cycle
- e. Gross Vs. Net working capital
- f. WACC
- g. Miller Orr model
- h. NPV method

**SECTION – B**

**Answer the following:**

**5 x 10 = 50 M**

2. a) Discuss in detail, the scope of financial management.

**OR**

b) The capital budgeting department of a company has suggested 2 investment proposals. The after tax cash flows for each are tabulated below. If the cost of capital is 12%, rank them on the basis of profitability index.

Year	Project A	Project B
0	₹ 36000	₹ 60000
1	₹ 13000	₹ 12000
2	₹ 13000	₹ 20000
3	₹ 13000	₹ 24000
4	₹ 13000	₹ 32000

3. a) What are the determinants of dividend policies? Explain.

OR

b) Show the implications of dividend policy according to Gordon's model for the given information:

Particulars	Growth firm	Normal firm	Declining firm
r	15%	10%	0.08

All the firms have  $k=0.10$  and  $EPS = ₹ 10$ . Show the values when the firms adopt 40% and 60% payout ratio.

4. a) Explain the concept of financial leverage. Show the impact of financial leverage on earnings per share.

OR

b) A company needs ₹ 500,000 for construction of a new plant. It has EBIT of ₹ 100,000. The company has 2 alternatives

1) Raise entire amount by equity or

2) Issue 25000 equity shares of ₹ 10 each and 2500 numbers of 10% debentures of ₹ 100 each.

What will be the EPS under the two alternatives given?

5. a) Explain the concept of working capital and the factors that determine the working capital needs of the firm.

OR

b) A cost sheet of a company provides the following data:

<b>Particulars</b>	<b>Cost per unit ₹</b>
Raw Materials	52.0
Direct labour	19.5
Overheads	39.0
<b>Total Costs</b>	<b>110.5</b>
Profit	19.5
<b>Selling price</b>	<b>130.0</b>

The following is the additional information available:

Average raw material in stock: one month;

Average materials in process: half a month.

Credit allowed by suppliers: one month;

Credit allowed to debtors: two months.

Time lag in payment of wages: one and a half weeks.

Overheads: one month.

One fourth of sales are on cash basis.

Cash balance is expected to be ₹ 120,000. You are required to prepare a statement showing the working capital needed to finance a level of activity of 70,000 units of output. Assume that production is carried on evenly through out the year and wages and overheads accrue similarly.

6. a) What are Marketable securities? Explain Marketable securities available for investment for a firm.

OR

b) A company has an expected annual usage of 50,000 units of product A during the next year. The cost of processing the order is ₹ 25. The carrying cost per unit is ₹ 0.75 for one year. The company keeps a reserve of 2 days usage. The lead time taken for an order is 5 days. You are required to calculate:

a) The EOQ

b) The re-order point (assume 360 days in a year)

### SECTION – C

#### 7. Case Study

1 x 10 = 10 M

A company is considering an investment proposal to install new machine at a cost of ₹ 50,000. The machine will last for 5 years and has no salvage value. The estimated cash flows after taxes are:

Year	Estimated cash flows after taxes
1	₹ 10,000
2	₹ 10,450
3	₹ 11,800
4	₹ 12,250
5	₹ 16,750

Compute the following:

a.) Pay back period

b.) Average rate of return

c.) Internal rate of return

d.) Net present value at 10%