Code: 14E00204

MBA II Semester Supplementary Examinations December/January 2015/2016

FINANCIAL MANAGEMENT

(For students admitted in 2014 only)

Time: 3 hours | Max. Marks: 60

All questions carry equal marks

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SECTION – A

Answer the following: (05 X 10 = 50 Marks)

1 Define financial management. Explain the nature and scope of financial management.

OR

2 Write short notes on: (a) Role of finance manager. (b) Profit maximization versus wealth maximization.

3 A company is considering an investment proposal to install new machinery. The project will cost Rs.75,000. The machinery has a life of 5 years and has no scrap value. The company's tax rate is 30% and the cut-off rate is 10%. The firm uses straight line method of depreciation. The estimated cash flows before taxes (CFBT) from the proposed investment proposal are as follows:

Years:	1	2	3	4	5
CFBT:	16,000	17,000	23,000	25,000	26,000

The present value factors (PVF) at 10% discount rate are given below:

Years:	1	2	3	4	5
PCF@10%:	0.909	0.826	0.751	0.683	0.621

You are required to compute:
(a) Account rate of return. (b) Net present value of the project.

OR

4 Under what circumstances do the net present value and internal rate of return methods differ? Which method would you prefer and why?

5 The capital structure of ABC company is as follows:
8% Debentures = Rs.15,00,000
6% preference shares = Rs.5,00,000
1,00,000 equity share capital of Rs.20 each = 20,00,000
The expected dividend on equity share capital is Rs.2 per share which will grow at 7% forever. Corporate tax rate is assumed to be 50%.
You are required to compute the weighted average cost of capital of ABC company.

OR

6 What is cost of capital? Discuss the different approaches to the computation of equity capital of a firm.

7 How are the objectives of inventory management and cash management similar? Explain.

OR

8 Briefly explain: (a) Pipe-line theory. (b) Economic order quantity.

9 What is merger? Enumerate the different types of mergers. What are the potential economic advantages from mergers?

OR

10 Examine the provisions of the Indian companies act governing corporate take-overs.

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SECTION – B

(Compulsory Question) 01 X 10 = 10 Marks

11 **Case study:** XYZ company has the following selected assets and liabilities.

(i) Cash = Rs,30,000
(ii) Favorable bank balance = Rs.15,000
(iii) Retained earnings = Rs.1,60,000
(iv) Equity share capital = Rs.1,50,000
(v) Debtors = Rs.40,000
(vi) Accounts payables = Rs.9,000
(vii) Inventories = Rs.1,11,000
(Viii) Debentures = Rs.1,00,000
(ix) Provision for tax = Rs.57,000
(x) Expenses outstanding = Rs.21,000
(xi) Land and building = Rs.2,00,000
(xii) Un-expired insurance = Rs.1,00,000
(xiii) Goodwill = Rs.50,000
(xiv) Furniture = Rs.25,000
(xv) Accounts receivables = Rs.20,000
(xvi) Creditors = Rs.30,000

You are required to calculate:

(a) Gross working capital.
(b) Net working capital.

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