

MBA II Semester Regular Examinations August 2015

FINANCIAL MANAGEMENT

(For students admitted in 2014 only)

Time: 3 hours

Max. Marks: 60

All questions carry equal marks

SECTION – A

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

- 1 “The whole gamut of financial management moves around the twin objectives”. Explain.
(OR)
- 2 Write short notes on: (a) Long term finance decisions. (b) Non-recurring finance function.
- 3 A company is interested to purchase an asset worth Rs.5,00,000. Its useful life is 5 years salvage value is Rs.40,000 and the tax rate is 30%. The estimated annual cash inflows before tax are given below:

I Year	= Rs.1,20,000
II Year	= Rs.1,60,000
III Year	= Rs.1,80,000
IV Year	= Rs.2,00,000
V Year	= Rs.2,40,000 (excluding salvage value)

Cost of capital is 10% per annum. The table values are given below:

Year	1	2	3	4	5
PVF@10%	0.909	0.826	0.751	0.683	0.621

You are required to compute: (a) Payback period. (b) Accounting rate of return. (c) Net present value. (d) Profitability index of the project.

(OR)

- 4 Discuss the traditional (non discounted cash flow) methods in evaluating capital budgeting decisions.
- 5 Write brief notes on: (a) Forms of dividends. (b) Elements of cost of capital.
(OR)
- 6 What is optimum capital structure? Explain the factors that determine the capital structure of a firm.
- 7 Describe the various factors which are taken into account in determining working capital needs of a firm.
(OR)
- 8 Prepare a cash budget for the months of May, June and July 2014 on the basis of the following information.

(a) Income and expenditure forecasts:

Months	Credit sales	Credit purchases	Wages	Manufacturing expenses	Office expenses	Selling expenses
March,14	60000	36000	9000	4000	2000	4000
April,14	62000.	38000	8000	3000	1500	5000
May,14	65000	33000	10000	4500	2500	4500
June,14	58000	35000	8500	3500	2000	3500
July,14	56000	39000	9500	4000	1000	4500
August,14	60000	34000	8000	3000	1500	4500

- (b) Cash balance on 1st May 2012 – Rs.8000.
- (c) Plant costing Rs.16,000 is due for delivery in July, payable 10% on delivery and the balance after 3 months.
- (d) Advance tax of Rs.8000 each is payable in March and June.
- (e) Period of credit allowed by suppliers – 2 months and to customers – 1 month.
- (f) Lag in payment of manufacturing expenses – ½ month.
- (g) Lag in payment of office and selling expenses – 1 month.

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- 9 What is corporate restructuring? State the major forms in which it can be carried out.
(OR)
10 Write a short note on: (a) Motives for mergers. (b) Principles of corporate governance.

SECTION – B

(Compulsory Question)

01 X 10 = 10 Marks

11 **Case study:**

Assuming that a firm pays tax at 35 percent, compute the after tax cost of capital in the following cases:

- (a) An ordinary share of a company which engages no external financing is selling for Rs.60. The earnings per share are Rs.9 of which 60% is paid in dividends. The company reinvests retained earnings @ 11%.
- (b) An ordinary share selling at a current market price of Rs.140 and paying a current dividend of Rs.12 per share which is expected to grow at a rate of 8%.
- (c) A preference share sold at Rs.100 with a 10% dividend and a redemption price of Rs.110, if the company redeems it in 5 years.
- (d) An irredeemable preference share of the face value of Rs.100 issued at par. Floatation costs are estimated at 5% of the expected sale price.
- (e) A 10 year 8%, Rs.100 par bond sold at Rs.95 less 5% underwriting commission.
