PVP 17

Code: **17BA2T1**

I MBA - II Semester - Regular Examinations – April 2018

FINANCIAL MANAGEMENT

Duration: 3 hours   Max. Marks: 60

SECTION - A

1. Answer the following: **5 x 2 = 10 M**

a) Finance functions
b) Cost of capital
c) Bonus shares
d) Operating cycle
e) Management of receivables

SECTION – B

Answer the following: **5 x 8 = 40 M**

2. a) Explain the difference between profit and wealth Maximization.

OR

b) A Company has to select one of the following two projects:

Particulars	Project A	Project B
Cost of the project	Rs 11,000	Rs 10,000
Cash inflows		
Years		
1	6,000	1,000
2	2,000	1,000
3	1,000	2,000
4	5,000	10,000

Using the IRR method, suggest which project is preferable?

3. a) Critically examine the net income and net operating income approaches to capital structure. What is the traditional view on this question?

OR

b) From the following select data determine the value of the firms P and Q belonging to the homogenous Risk class under
i) the NI approach ii) the NOI approach

Particulars	Levered Firm P	Unlevered Firm Q		
EBIT	2,00,000	2,00,000		
Interest at 10%	50,000			
Equity capitalization rate	15%	15%		
Corporate tax rate	50%	50%		

Which of the 2 firms has an optimal capital structure under the
i) NI approach ii)NOI approach

4. a) What factors determine the dividend policy of a company do you believe it will be justifiable for a company to obtain a short term loan from a bank to allow payment of a dividend?

OR

b) Details regarding 3 companies are given below

A ltd	B ltd	C ltd	
R= 15%	R= 10%	R= 8%	
K e = 10%	K e = 10%	K e = 10%	
E = Rs 10	E = Rs 10	E = Rs 10	

By using walters model you are required to
i) calculate the value of an equity share of each of these companies when dividend pay out ratio is a) 20 % b) 50% c) 0% d) 100%
ii) comment on the result drawn

5. a) What is meant by working capital management what are determinants of working capital needs of an enterprise?

OR

b) A newly formed company has applied to the commercial bank for the 1st time for financing its working capital requirements the following information is available about the projections for the current year: estimated level of activity 1,04,000 completed units of production plus 4,000 units of working in progress based on the above activity estimated cost per units ?

Particulars	Amount Rs
Raw materials	Rs 80
Direct wages	Rs 30
Overheads (exclusive of depreciation)	Rs 60
Total cost	Rs 170
Selling price	Rs 200

Raw material in stock: average of ‘4’ weeks consumption
Work in progress (assuming 50% completion stage) in respect of conversion cost; materials issued at the start of processing.
Finished goods in stock 8,000.
Credit allowed by supplier average ‘4’ weeks
Credit allowed to debtors / receivable average ‘8’ weeks
Lag in payment of wages average 1 ½ weeks
Cash at bank (for smooth operations) is expected to be Rs. 25,000
Assume that production is carried on evenly throughout the year (52 weeks) and wages and overheads accrue similar. All sales are on credit basis only.

6. a) What are the benefits of the credit sales maintaining accounting receivables?

OR

b) Prepare a cash budget for the months of may, june and July 1998 on the basis of the following information.
Income and Expenditure forecasts:

Months	Credit sales	Credit purchases	Wages	Manufacturing expenses	Office expenses	Selling expenses
March	60,000	36,000	9,000	4,000	2,000	4,000
April	62,000	38,000	8,000	3,000	1,500	5,000
May	65,000	33,000	10,000	4,500	2,500	4,500
June	58,000	35,000	8,500	3,500	2,000	3,500
July	56,000	39,000	9,500	4,000	1,000	4,500
August	60,000	34,000	8,000	3,000	1,500	4,500

1. Cash balance on 1st May,1998 Rs 8,000.
2. Plant costing Rs 16,000 is due for delivery in july, payable 10 % on delivery in july, payable 10 % on delivery on the balance after 3 months
3. Advance tax of Rs 8,000 each is payable in march and june
4. Period of credit allowed by supplier 2 months and to customer 1 month .
5. Lag in payment of manufacturing expenses ½ month
6. Lag in payment of office and selling expenses 1 month

SECTION-C

7. Case Study **1x10=10 Marks**

Following are the details regarding 3 projects A, B and C you are required to evaluate each of three projects by the

i) Pay Back Period ii) Average rate of return

iii) Net Present value (cost of capital 5%)

Particulars	A	B	C
Cost of the project	50,000	50,000	50,000
Life of the Asset	5 years	2 years	5 years
Cash inflow			
1	20,000	40,000	10,000
2	20,000	10,000	10,000
3	20,000		20,000
4	20,000		20,000
5			40,000