Code No: 21BA2T1

I MBA - II Semester - Regular / Supplementary Examinations
JULY 2023

FINANCIAL MANAGEMENT

Duration: 3 Hours Max. Marks: 70

Note: 1. This question paper contains three Parts-A, Part-B and Part-C.
2. Part-A contains 8 short answer questions. Answer any **Five** Questions. Each Question carries 2 Marks.
3. Part-B contains 5 essay questions with an internal choice from each unit. Each Question carries 10 marks.
4. Part-C contains one Case Study for 10 Marks.
5. All parts of Question paper must be answered in one place

BL – Blooms Level CO – Course Outcome

PART - A

		BL	CO
1. a)	What is Wealth Maximization and explain its relevance.	L1	CO1
1. b)	Show how you would determine the weighted average cost of capital of a firm.	L2	CO2
1. c)	Infer bonus shares and Rights issue.	L2	CO3
1. d)	Recall trade credit.	L1	CO4
1. e)	List the characteristics of marketable securities.	L1	CO5
1. f)	Extend risk analysis.	L2	CO1
1. g)	Inspect marginal cost of capital.	L4	CO2
1. h)	What is Management of cash?	L1	CO5

PART – B

		BL	CO	Max. Marks
	UNIT – I			
2.	What is Capital Budgeting? Why is it Significant for a firm? Explain the nature and techniques Capital Budgeting.	L1 L2	CO1	10 M
	OR			

3.	Equipment A has a cost of Rs. 75,000 and net cash flow of Rs. 20,000 per year for six years. A substitute equipment B would cost Rs. 50,000 and generate net cash flow of Rs. 14,000 per year for six years. The required rate of return of both equipment is 11%. Calculate the IRR and NPV for each equipment. Which equipment should be accepted and Why?	L4	CO1	10 M
	UNIT – II			
4.	Define Operating and Financial leverage. How can you measure the degree of operating and financial leverage? Show the suitable example.	L2	CO2	10 M
	OR			
5.	A company has the following Book value capital structure.	L4	CO2	10 M

(Amount in Crores of Rupees)

Components of Capital	Amount
Equity Capital (In shares of Rs 10 each, fully paid)	15
12% Preference Capital(In shares of Rs 100 each, Fully paid)	1
Retained earnings	20
11.5% Debentures(Of Rs.100 each)	10
11% Term Loan	14
TOTAL	60

Additional Information:

a) The Market price per equity share is Rs 40. The next expected dividend per share (DPS) is Rs 3.60 and the DPS is expected to grow at a constant rate of 7%.

b) The preference shares are redeemable after 10 years at par and are currently selling at Rs 75 per share.

c) The debentures are redeemable after 6 years at par and their current market rate is Rs 80 per

	debenture. d) The tax rate applicable to the firm is 40%.Predict the Weighted Average Cost of Capital, using the Market Value proportions.			
	<u>UNIT-III</u>			
6.	Explain the various factors which influence the dividend decision of a firm.	L2	CO3	10 M
	OR			
7.	Elaborate MM hypothesis, walter and Gordon models.	L4	CO3	10 M
	<u>UNIT – IV</u>			
8.	Determine the need and determinants of Working capital in a business.	L3	CO4	10 M
	OR			
9.	Evaluate planning of working capital and Financing of working capital.	L4	CO4	10 M
	<u>UNIT – V</u>			
10.	What is receivable Management? How it is useful for business Concerns?	L2	CO5	10 M
	OR			
11.	Prepare cash budget for the three months starting from March 2019. **Month Sales (Rs.) Purchases (Rs.) Wages (Rs.)** Jan,2019 3,20,000 2,60,000 40,000 Feb,2019 3,34,000 2,52,000 42,000 Mar,2019 2,92,000 3,46,000 38,000 Apr,2019 3,66,000 4,06,000 34,000 May,2019 2,22,000 4,28,600 30,000 a) 25 percent of the sales is on cash. 50 percent of the credit sales is realized in the month following sales and the remaining 50 percent of the credit sales in the second month following. b) Creditors are paid in the month following the month of purchase.	L4	CO5	10 M

	c) Estimated cash at bank as on 1st March, 2019 is Rs.80,000.			

PART –C

		BL	CO	Max. Marks
12.	X & Y Company is desirous to purchase a business and has consulted you and one point on which you are asked to advise them is the average amount of working capital which will be required in the first year's working. You are given the following estimates and are instructed to add 10% to your computed figure to allow for contingencies. Amount for the Year (Rs.) (i) Average amount backed up for stocks Stocks of finished goods 5,000 Stocks of stores, materials etc. 8,000 (ii) Average credit given Island sales 6 weeks' credit 3,12,000 Export sales 1 ½ Weeks' credit 78,000 (iii) Average time lag in payment of wages and others Outgoings: Wages (1 ½ weeks) 2,60,000 Stock, Materials etc. (1 ½ months) 48,000 Rent, Royalties etc. (6 months) 10,000 Clerical staff (1 ½ months) 62,400 Manager (1 ½ months) 4,800 Miscellaneous expenses (1½ months)48,000 (iv) Payment in advance: Sundry expenses (paid quarterly 1 advance) 8,000 Undrawn profits on the average throughout the year 11,000 Set up your calculations for the average amount of working capital required.	L4	CO4	10 M