Code No: **21BA2T1**

I MBA - II Semester - Regular Examinations SEPTEMBER - 2022

FINANCIAL MANAGEMENT

Duration: 3 Hours   Max. Marks: 70

Note: 1. This question paper contains threeParts-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

PART - A

5 x 2 = 10 M

1. a) Explain the challenges of modern financial manager.
   b) What is weighted average cost of capital and marginal cost of capital?
   c) Recall about share splits.
   d) Explain the factors determining the working capital needs
   e) What are the various costs associated with receivables?
   f) Summarize retained earnings.
   g) What is composite leverage? Explain briefly.
   h) Outline the components of working capital.

PART –B

5 x 10 = 50 M

UNIT – I

2. What is Capital Budgeting? Explain the phases of Capital Budgeting process. 10 M

OR

3. A company considering two mutually exclusive projects both require an initial investment of Rs. 50,000 each and have a life of five years. The cost of capital of the company is 10% and tax rate is 50%. The depreciation is charge on straight line methods. The estimated net cash inflows (before depreciation and tax) of the two projects are as follows:

Year	Project -A	Project -B
1	20000	30000
2	22000	27000
3	28000	22000
4	25000	25000
5	30000	20000

Which project should be accepted as per NPV and IRR methods? 10 M

UNIT – II

4. Explain the three approaches for designing and determining a Firm's Capital Structure, with suitable example illustrations for each approach. 10 M

OR

5. The sales of Hasini Ltd. are 20000 units at the rate of Rs. 20 each. The variable cost per unit is Rs. 8 per unit. The fixed expenses are Rs. 50000. The company employs 10% debentures of Rs. 500000 in its capital structure.

You are required to estimate

a) Degree of operating leverage

b) Degree of Financial leverage

c) Degree of combined leverage 10 M

UNIT-III

6. What is Modigliani - Miller irrelevance hypothesis to dividend policy? Critically evaluate its assumptions. 10 M

OR

7. Explain the factors determining the dividend policy of a company and basic model of valuation of the firm. 10 M

UNIT – IV

8. What is Working Capital Management? What are the sources of Working Capital? 10 M

OR

9. From the following information you are required to estimate the net working capital.

Particulars	**Cost per unit**
Raw materials	400
Direct labour	150
Overheads (excluding depreciation)	300
Total cost	800
Additional information	
Selling price	Rs 1000 per unit
Output	52000 units per year
Raw material in stock	Average 4 weeks
Work in process (assume 50% completion stage with full material consumption)	Average 2 weeks
Finished goods in stock	Average 4 weeks
Credit allowed by suppliers	Average 4 weeks
Credit allowed to debtors	Average 8 weeks
Cash at bank is expected to be	Rs 50000

Assume that production is sustained at an even pace 10 M during the 52 weeks of the year. All sales are on credit basis. State any other assumption that you might have made while computing.

UNIT – V

10. Why should inventory to be held? Why is inventory management important? Explain the objectives of inventory management. 10 M

OR

11. Discuss marketable security alternatives. 10 M

PART –C

10 M

CASE STUDY

12. The following information is available for two firms, Xmart and Ymart Corporation.

	Xmart	**Ymart**
Net Operating Income	Rs. 2,000,000	Rs. 2,000,000
Interest on Debt	Nill	500,000
Cost of Equity	15%	15%
Cost of Debt	10%	10%

(a) Calculate the market value of equity, market value of debt and market value of the firm for Xmart Corporation and Ymart Corporation.

(b) What is the average cost of capital for each of the firms?

(c) What happens to the average cost of capital of Xmart Corporation if it employs Rs. 30 million of debt to finance a project that yields an operating income of Rs. 4 millions?

(d) What happens to the average cost of capital of Ymart Corporation if it sells Rs. 10 millions of additional equity (at par) to retire Rs. 10 million of outstanding debt? In answering the above questions assume that the net income approach applies and there are no taxes.