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10MBA23

Second Semester MBA Degree Examination, Dec.2013/Jan.2014
Financial Management

Time: 3 hrs. Max. Marks:100

Note: ***1. Answer any FOUR full questions from Q.No.1 to 7.***
2. Q.No. 8 is compulsory
3. Use of PV table is permitted.

1 a. Depict the organization of finance function. **(03 Marks)**
b. Distinguish between profit maximization and wealth maximization. **(07 Marks)**
c. Explain the various functions of financial manager and the changing role of financial manager in present scenario. **(10 Marks)**

2 a. What is time value of money? Explain. **(03 Marks)**
b. Risk-return trade off and the types of risks. **(07 Marks)**
c. i) Find out the future value of Rs.2,200 at interest of 12% per annum. If compounded annually, semiannually, quarterly and monthly.
ii) An investor has an opportunity receiving Rs.10,000, Rs.15,000, Rs.8000 and Rs.11,000 respectively at the end of one to 4 years. Then Rs.12,000 from 5th year to 7th year. Find out the present value of cash flows when the investor's required interest rate is 8%?

Year	1	2	3	4	5	6	7
8% interest rate	0.926	0.857	0.794	0.735	0.681	0.630	0.583

(10 Marks)

3 a. What is capital budgeting? **(03 Marks)**
b. Describe the long term sources of finance-categories and features. **(07 Marks)**
c. i) A project requires an investment of Rs.5,00,000 and additional installation charges Rs.25,000. The machine has a scrap value of Rs.30,000 after 5 years. It is expected to yield profits after depreciation and taxes during 5 years amounting to

Year	1	2	3	4	5
PAT	40,000	60,000	70,000	50,000	20,000

Calculate average rate of return (ARR).
ii) A project cost Rs.5,00,000 and yields Rs.80,000 after depreciation @ 12% p.a but before tax of 50%. Calculate pay back period. **(10 Marks)**

4 a. What are the various investment decisions-classify? Explain. **(03 Marks)**
b. Explain Capital Asset Pricing Model (CAPM) with its assumptions. **(07 Marks)**
c. The zentex company has the following capital structure:

i)	Equity share capital 30,000 @ par value of Rs.10/-	- 3,00,000
ii)	12% debentures 1000 units @ face value of Rs.100	- 1,00,000
iii)	8% 1000 pre. Shares of Rs.100 cash issued as Rs.95 (redeemable after 6 years)	- 1,00,000
	Total	5,00,000

The company expects a dividend of Rs.5/- next year and expected growth rate is 7%. The market price of share is 25/-.
Assume tax rate is 50%.
i) Calculate WACC using book value weight.
ii) If the preference shares are irredeemable calculate WACC. **(10 Marks)**

5 a. What is meant by NWC (Net Working Capital)? Explain operating cycle. **(03 Marks)**
b. Explain Indian Financial System in detail. **(07 Marks)**

c. The Folitrax company's annual reports depicts the following details 90% of the sales are credit sales:

	Rs.		Rs.	Rs.
		Particulars	Opening	Closing
Total sales	8,40,000	R.M.	26,800	23,800
R.M. consumption	4,64,000	W.I.P	7,200	7,600
Cost of production	7,26,000	Finished	72,500	76,800
Cost of goods sold	7,58,000	Debtors	96,800	84,200
		Creditors	18,500	20,400

Calculate:
Raw Material Conversion Period (RMCP)
Work in Process Conversion Period (WIPCP)
Finished Goods Conversion Period (FGCP)
Debtors conversion period. **(10 Marks)**

6 a. What is meant by corporate governance? **(03 Marks)**
b. What is a dividend decision? What are constant dividend per share, constant payout and constant dividend per share plus extra dividend policies? **(07 Marks)**
c. The Karthik company Ltd consists of sales 1,50,000 units @ 1.50 per unit then they want to increase sales to 2,00,000 units. Variable cost Rs.0.50 paise per unit. Fixed expenses amounted to Rs.40,000 interest RS.5000 and income tax rate is assumed to be 50%. You are required to calculate the following: i) Financial leverage; ii) Operating leverage and iii) Combined leverage for present and future case and give your comments. **(10 Marks)**

7 a. What is ESOP? **(03 Marks)**
b. Distinguish between Money market and capital market. **(07 Marks)**
c. The return on investment of two companies, company x and company z are given below. Which company has higher risk and return?

Year	Rate of return x company %	Rate of return z company %	Probability
2007	12	15	0.30
2008	15	12	0.20
2009	16	14	0.20
2010	13	11	0.20

(10 Marks)

8 Compulsory:
The trend company with a initial cash out lay of Rs.1,00,000 each and have life of 5 years. The required rate of return is 10% and pays tax 50% rate. The required rate of return is 10% and pays tax 50% rate. The projects are depreciated on straight line method. You have to suggest and comment on the given two projects cash flows before tax and depreciation are as follows:

Year	Project A Rs.	Project B Rs.	Discount rate 10%
1	40,000	60,000	0.909
2	40,000	30,000	0.826
3	40,000	20,000	0.751
4	40,000	50,000	0.683
5	40,000	50,000	0.621

Calculate: i) Net present value (NPV); ii) Profitability index; iii) Internal rate of return of two projects and suggest which project is feasible. **(20 Marks)**

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