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05MBA23

Second Semester MBA Degree Examination, June/July 2013

Financial Management

Time: 3 hrs. Max. Marks:100

Note: 1. ***Answer any FOUR full questions from Q.No.1 to Q.No.7.***
2. ***Question No. 8 is compulsory.***
3. ***Use of Time Value tables permitted.***

1 a. What are the objectives of financial management? **(03 Marks)**
b. Discuss the three broad areas of financial decision making. **(07 Marks)**
c. What is annuity? Explain how can future value of an annuity be determined. **(10 Marks)**

2 a. What is weighted average cost of capital? **(03 Marks)**
b. Pentagon Ltd. is evaluating a project that has the following cash flow stream associated with it:

Year	0	1	2	3	4	5	6
CF (Rs-in million)	(-120)	(-80)	20	60	80	100	120

The cost of capital for pentagon is 15 percent. Calculate the modified internal rate of return. **(07 Marks)**
c. Explain the various investment evaluation techniques. **(10 Marks)**

3 a. What are the components of current assets? **(03 Marks)**
b. Briefly explain the factors influencing working capital requirements. **(07 Marks)**
c. A company issues 11 percent irredeemable preference shares of the face value of Rs.100 each. Floatation costs are estimated at 5 percent of the expected sale price. What is the cost of preference capital, if issued at (i) par value, (ii) 10 percent premium and (iii) 5 percent discount? **(10 Marks)**

4 a. What is capital structure? **(03 Marks)**
b. Explain the nature of the factors which influence the dividend policy of the firm. **(07 Marks)**
c. From the following data, compute the deviation of the operating cycle:

Particulars	Amount
Stocks:	
Raw material	27,000
WIP	18,000
FGS	24,000
Purchase of raw materials	1,35,000
Cost of goods sold	1,80,000
Sales	2,00,000
Debentures	50,000
Creditors	18,000

Assume 360 days per year for computation purposes. **(10 Marks)**

5 a. What is leasing? **(03 Marks)**
b. Explain the various sources of long-term finance. **(07 Marks)**
c. A firm has sales of Rs.10,00,000. Variable cost of Rs.7,00,000 and fixed costs of Rs.2,00,000 and debt of Rs.5,00,000 at 10% rate of interest. What are the operating, financial and combined leverage? **(10 Marks)**

6 a. What do you mean by forward contract? **(03 Marks)**
b. Distinguish between future contact and forward contracts. **(07 Marks)**
c. Explain the structure of Indian Financial System. **(10 Marks)**

7 a. What are the characteristics of a sound financial plan? **(05 Marks)**
b. From the following projections of XYZ & Ltd, for the next year, you are required to determine the working capital required by the company.
Annual sales = Rs.14,40,000
Cost of production (including depreciation of Rs.1,20,000) = 12,00,000
Raw materials purchases = Rs.7,05,000
Monthly expenditure = Rs.30,000
Opening stock of raw material = 1,40,000
Closing stock of raw material = 1,25,000
Raw materials 2 months, WIP ½ month and FGS 1 month.
The firm enjoys a credit of half a month on its purchases and allows one month credit on its supplies. On sales order, the company receives an advance of Rs.15000. You may assume that production is carried out evenly throughout the year and minimum cash balance desired to be maintained is Rs.35,000. **(15 Marks)**

8 The expected cash flows of a project are as follows:

Year	0	1	2	3	4	5
CF	(-1,00,000)	20,000	30,000	40,000	50,000	30,000

The cost of capital is 12 percent. Calculate the following:
i) Net present value
ii) Benefit cost ratio
iii) Internal rate of return
iv) Payback period
v) Discounted payback period. **(20 Marks)**

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