

# MBAC 2001/MBLC 1003

M.B.A. DEGREE EXAMINATION, JUNE 2015.

Second Semester

General/Marketing/Finance/IB/HRM/RM/Tourism

FINANCIAL MANAGEMENT

(2012-2013 Batch onwards)

Time : Three hours

Maximum : 100 marks

SECTION A — (5 × 6 = 30 marks)

Answer any FIVE questions.

All questions carry equal marks.

1. Explain the importance of financial management.
2. State the significance of cost of capital.
3. Examine the advantages of capital budgeting.
4. Briefly explain operating leverage
5. What are the types of dividend?
6. State and explain the sources of working capital.

7. How will you determine the stable dividend policy?
8. Explain the different approaches of capital structure.

SECTION B — (5 × 10 = 50 marks)

Answer any FIVE questions.

All questions carry equal marks.

9. Briefly discuss the key strategies of financial management.
10. Explain the different methods of computation of cost of capital.
11. Describe the various techniques of capital budgeting.
12. The capital structure of Abi Ltd consist of the following securities :

10% Preference share capital      Rs. 1,00,00,000

Equity share capital (Rs. 10/share) Rs. 1,00,00,000

The amount of operating profit is Rs. 60,00,000. The company is in the 50% tax bracket. You are required to calculate the financial leverage of the company. What would be the new financial leverage if the operating profit increase to Rs. 90,00,000 and interpret your results.

13. Critically evaluate MM Theory and what do you feel about the relevance of the theory.
14. How will you determine the working capital requirement for a chemical industry?
15. Briefly explain the factors to be considered in capital structure planning.
16. From the following particulars of capital structure of a company, you are required to calculate the overall cost of capital.

800, 8% Debentures of Rs. 1000 each issued at par Rs. 800000

2000, 9% Preference shares of Rs. 100 each at par Rs. 2,00,000

1,000, equity shares of Rs. 100 at par Rs. 10,00,000

New debentures can be sold at par at 10% interest rate. Preference shares will have a 12% dividend rate and can be sold at par. Equity shares can be sold, to net Rs. 90 per share. The shareholder's required rate of return is 8% which is expected to grow at 4%. Retained earnings for the year are estimated to be Rs. 1,00,000. The company is planning to expand its business accordingly and the company's tax rate is 50%. Determine the cost of each source of capital.

SECTION C — (1 × 20 = 20 marks)

(Compulsory)

7. Abi Ltd company is considering the purchase of Machine. Two machine P and Q, each costing Rs. 50,000, are available. Earning after taxes are expected be as under :

| Year | Machine P<br>Rs. | Machine Q<br>Rs. | Discount factor at 10%<br>Rs. |
|------|------------------|------------------|-------------------------------|
| 1    | 15,000           | 5,000            | 0.9091                        |
| 2    | 20,000           | 15,000           | 0.8264                        |
| 3    | 25,000           | 20,000           | 0.7513                        |
| 4    | 15,000           | 30,000           | 0.6830                        |
| 5    | 10,000           | 20,000           | 0.6209                        |

Evaluate the two alternatives according to NPV method (a discount of 10% is to be used). Which machine should be selected? Why?