MBA 06 R

M.B.A. DEGREE EXAMINATION,
DECEMBER 2013.
Second Semester
General, Finance, Marketing, HRM, IBRM, Tourism,
OSCM, IM, HM

FINANCIAL MANAGEMENT
(2012–2013 Batch onwards)

Time : Three hours Maximum : 100 marks

SECTION A — (5 × 6 = 30 marks)
Answer any FIVE questions.
1. What are the significance of cost of capital?
2. List out the functions of financial management.
3. Define capital budgeting and state its importance.
4. The working result of two machines are as follows:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Machine I (Rs.)</th>
<th>Machine II (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of investment</td>
<td>4,50,000</td>
<td>4,50,000</td>
</tr>
<tr>
<td>Sales per year</td>
<td>10,00,000</td>
<td>8,00,000</td>
</tr>
<tr>
<td>Cost per year</td>
<td>3,60,000</td>
<td>8,00,000</td>
</tr>
<tr>
<td>Expected life</td>
<td>2 years</td>
<td>3 years</td>
</tr>
</tbody>
</table>

Compute the Average Rate of Return. Which machine is to be selected?
8. How will you calculate Working Capital?

Share based on Dividend Growth Model.
Calculate the value of Prashan Products Ltd. capital is 16%.

3% The expected rate of return on its equity.
Annual Growth Rate in Dividend expected is each. A Paid-up share capital of Rs. 50 lakhs of Rs. 10
paid dividend distributed at the rate of 21% pa. Having
exchange. Its share current market price after
having its shares quoted in the major stock
Dharshan Products Ltd. is an established company

Interest charges Rs. 7,360
Fixed cost Rs. 2,00,000
Variable cost per unit @ Rs. 1.40
Sales 2,00,000 units @ Rs. 4 per unit.

(b) Financial Leverage.
(a) Operating Leverage.

6. Calculate Degree of:

appropriable Capital Structure?

3. What are the factors determining choice of an
company could sell 1,20,000 tanks each year for six years at a price of Rs. 1,500 each. The Company's current facilities cannot be used to manufacture the new size tanks. Therefore, it will have to buy new machinery. A manufacture has offered two options to the company. The first option is that the company could buy four small machines with the capacity of manufacturing 30,000 tanks each at a cost of Rs. 115 million each. The machine operation and manufacturing cost of each tank will be Rs.535. Alternatively, MPD Nellai can buy a large machine with the capacity of 1,20,000 units per annum for Rs.500 million. The machine operation and manufacturing cost of each tank will be Rs.450. The company has a required rate of return of 12 per cent. Assume that the company does not pay any taxes.

Discussion questions.
(a) Which option should the Company Accept?
(b) Why do you think that the Method chosen by you is the most suitable method in evaluating the proposed Investment?

SECTION B — (5 x 10 = 50 marks)

9. “The concept of Wealth Maximization is superior to Profit Maximization”. Give your comments.
10. What are the approaches available for calculating cost of capital?
11. Examine the factors affecting the capital investment decision.
12. Divyan Industries Limited is considering the purchase of a new machine which would carry out some operations at present performed by manual labour. The two alternative models under consideration are machine P, and Q. The following information, from which a profitability statement is to be prepared for submission to the Board of Directors, is available as under:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Machine P</th>
<th>Machine Q</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of machine (Rs.)</td>
<td>30,00,000</td>
<td>50,00,000</td>
</tr>
<tr>
<td>Estimated life (in years)</td>
<td>10</td>
<td>12</td>
</tr>
<tr>
<td>Estimated saving in scarp p.a. (Rs.)</td>
<td>2,00,000</td>
<td>3,00,000</td>
</tr>
<tr>
<td>Additional cost of supervision p.a. (Rs.)</td>
<td>2,40,000</td>
<td>3,20,000</td>
</tr>
<tr>
<td>Additional cost of maintenance P.a (Rs.)</td>
<td>1,40,000</td>
<td>2,20,000</td>
</tr>
<tr>
<td>Cost of Indirect material p.a. (Rs.)</td>
<td>1,20,000</td>
<td>1,60,000</td>
</tr>
</tbody>
</table>
company's market department reveals that the type of overhead water tanks. The survey of the company is therefore thinking of producing a new water tank of a particular size of water tank at that need a particular size of water tank. Not identified a niche market in certain North cities. The management of NMD Nella has decided to manufacture an overhead water tank. NMD Nella is situated in South India. 

Case Study: Complitors

SECTION C — (1) $20 = 20% marks

capital requirements

You are required to ascertain the working capital requirements. You are required to ascertain the working capital requirements. You are required to ascertain the working capital requirements. You are required to ascertain the working capital requirements. You are required to ascertain the working capital requirements.

1. Material purchased in the next month of actual material is paid. Therefore, production and sales cycle is a regular production and sales cycle. 

2. Selling overheads, 4% per cent of selling price. 

3. Manufacturing overheads, 10% per cent of selling price. 

4. Direct wages, 10% per cent of selling price. 

5. Raw materials, 50% per cent of selling price. 

6. Selling price per unit Rs. 50. 

7. Credit given to Debtors, 3 months. 

8. Credit allowed by Creditors, 2 months. 

9. Production process, 1 month. 

10. Raw materials in Store, 2 months. 

11. Finished goods in store, 3 months. 

12. Production of the Year 1,38,000 units. 

13. Workers not Required. 1,500 

14. Workers per worker per a. 1,700 

15. Directly Explain Walter's Approach to Dividend Policy. 

16. You are supplied with the following information in the year:

Income tax rate 45% 

Selling price: Rs. 50. 

Variable cost as a % to 66

Operating Leverage 4:1 

Financial Leverage 3:1 

Interest:

Homes Rs. 300 

Rs. 1,000

On each company's performance, state the following statements of company A, B, and C and briefly comment on each company's performance. 

14. Critically examine the financial structure. 


12. Give reasons for your answer. 

11. Which Model can be recommended for purchase? 

The rate of exchange may be regarded as 50% of 

<table>
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<th>Workers per Worker per a. (a)</th>
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<tbody>
<tr>
<td>1,700</td>
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</table>

Estimated Savings in Wages: