

MBAC 2001/MBLC 1003

M.B.A. DEGREE EXAMINATION,
DECEMBER 2014/JANUARY 2015.

First Semester

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

FINANCIAL MANAGEMENT

(2012 – 13 Batch Onwards)

Time : Three hours

Maximum : 100 marks

PART A — (5 × 6 = 30 marks)

Answer any FIVE questions.

All questions carry equal marks.

1. Define 'Financial Management'. Describe the scope of financial management.
2. What is cost of capital? Explain the concept of cost of capital.
3. Write the need and significance of capital budgeting.
4. What are the objectives of a capital expenditure budget?
5. State the significance of leverage.

6. What are the factors which influence the dividend policy of a firm?
7. Write the assumptions of MM hypotheses.
8. Explain the types of working capital.

PART B — (5 × 10 = 50 marks)

Answer any FIVE questions.

All questions carry equal marks.

9. Explain the functions of financial management.
10. A company sells goods in the home market and earns a gross profit of 20% on sales. Its annual figures are as follows :

	Rs.
Sales	
Materials used	3,00,000
Wages	1,08,000
Manufacturing expenses	96,000
Administrative expenses	1,20,000
Depreciation	30,000
Selling expenses	12,000
Income tax payable in two installments of which one Falls in the next year	18,000
	30,000

PART C — (1 × 20 = 20 marks)

Compulsory.

17. Explain the arbitrage argument of MM? Give the formula given be their in support of your argument.
-

Additional information :

- (a) Credit given by suppliers — 2 months
 - (b) Credit allowed to customers — 1 month
 - (c) Lag in payment of wages — 1/2 month
 - (d) Lag in payment of manufacturing expenses— 1 month
 - (e) Selling expenses are paid quarterly in advance.
 - (f) Raw materials and finished goods are in stock for 1 month.
 - (g) Cash balance estimated to be maintained at Rs. 30,000.
11. You are required to prepare a statement of working capital requirements.
11. What are the factors affecting capital investment decision?
12. What are the different types of dividend policies?
13. The Agro-chemicals company belongs to a risk class for which the appropriate capitalization rate is 10%. It currently has 1,00,000 shares selling at Rs. 100 each. The firm is contemplating the declaration of Rs. 5 as dividend at the end of the current financial year, which has just begun. What will be the price of the share at the end of the year, if a dividend is not declared? What will it be if one is? Answer these on the basis of Modigliani and Miller model and assume no taxes.

14. Explain the various factors influencing working capital.

15. A company desires to purchase a business and has consulted you, and one point on which you are asked to advise them in the average amount of working capital which will be required in the first year's working. You are given the following estimates and are instructed to add 10% to your computed figure to allow for contingencies.

	Rs.
(a) Average amount locked up in stock :	
Stock of finished product	5,000
Stock of stores, materials etc.	8,000
(b) Average credit given :	
Inland sales 6 weeks credit	3,12,000
Export sales 1½ weeks credit	78,000
(c) Lag in payment of wages and other out standings :	
Wages	1½ weeks 2,60,000
Stores, materials, etc.	1½ months 48,000
Rent, royalties etc	6 months 10,000
Clerical staff	½ month 62,400
Manager	½ month 4,800
Miscellaneous expenses	1½ months 48,000

4

MBAC 2001/
MBLC 1003

Rs.

(d) Payments in advance :

Sundry expenses (paid quarterly in advance) 8,000

(e) Undrawn profits on an average throughout the year 11,000

Calculate the average amount of working capital required.

16. From the following information calculate the net present value of the two projects and suggest which of the two projects should be accepted assuming a discount rate of 10%.

Project X Project Y

Initial Investment Rs. 20,000 Rs. 30,000

Estimated life 5 Years 5 Years

Scrap value Rs. 1,000 Rs. 2,000

The profit before depreciation and after taxes are as follows :

	Year 1	Year 2	Year 3	Year 4	Year 5
Project X Rs.	5,000	10,000	10,000	3,000	2,000
Project Y Rs.	20,000	10,000	5,000	3,000	2,000
PV factor @ 10%	.909	.826	.751	.683	.621

5

MBAC 2001/
MBLC 1003