State the significance of leverage.

4.

What are the objectives of a capital expenditure budget?

3.

Write the need and significance of capital expenditure.

2.

What is cost of capital? Explain the concept of cost of capital.

1.

Describe the scope of financial management. Describe the concept of financial management. All questions carry equal marks.

Answer any FIVE questions.

PART A — 6 x 6 = 36 marks

Maximum: 100 marks

Time: Three hours

(2012 – 13 Batch onwards)

FINANCIAL MANAGEMENT

First Semester

December 2014/January 2015

M.B.A. Degree Examination

MBA 2001/MBLC 1003
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 \(= (5 \times 10 = 50 \text{ marks})\)

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:

<table>
<thead>
<tr>
<th></th>
<th>Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>3,00,000</td>
</tr>
<tr>
<td>Materials used</td>
<td>1,08,000</td>
</tr>
<tr>
<td>Wages</td>
<td>96,000</td>
</tr>
<tr>
<td>Manufacturing expenses</td>
<td>1,20,000</td>
</tr>
<tr>
<td>Administrative expenses</td>
<td>30,000</td>
</tr>
<tr>
<td>Depreciation</td>
<td>12,000</td>
</tr>
<tr>
<td>Selling expenses</td>
<td>18,000</td>
</tr>
<tr>
<td>Income tax payable in two installments of which one Falls in the next year</td>
<td>30,000</td>
</tr>
</tbody>
</table>
What are the different types of dividend policies?

What are the factors affecting capital investment?

II.

Working capital requirements. You are required to prepare a statement of Rs. 30,000.

(a) Cash balance estimated to be maintained at a level of Rs. 30,000.
(b) Stock for 1 month.
(c) Raw materials and finished goods are in advance.
(d) Selling expenses are paid quarterly in advance. Selling expenses — 1 month.
(e) Raw materials in production — 1/2 month.
(f) Raw materials in production — 1/2 month.
(g) Credit allowed to customers — 1 month.
(h) Credit allowed to suppliers — 2 months.

Additional information:

13. The Aero-Chemicals Company belongs to a risk

12. What are the factors affecting capital investment?
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.

(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

Rs.

(d) Payments in advance:
- Sundry expenses (paid quarterly in advance): 8,000
- 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%.

<table>
<thead>
<tr>
<th></th>
<th>Project X</th>
<th>Project Y</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initial Investment</td>
<td>Rs. 20,000</td>
<td>Rs. 30,000</td>
</tr>
<tr>
<td>Estimated life</td>
<td>5 Years</td>
<td>5 Years</td>
</tr>
<tr>
<td>Scrap value</td>
<td>Rs. 1,000</td>
<td>Rs. 2,000</td>
</tr>
</tbody>
</table>

The profit before depreciation and after taxes are as follows:

<table>
<thead>
<tr>
<th></th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
<th>Year 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project X Rs.</td>
<td>5,000</td>
<td>10,000</td>
<td>10,000</td>
<td>3,000</td>
<td>2,000</td>
</tr>
<tr>
<td>Project Y Rs.</td>
<td>20,000</td>
<td>10,000</td>
<td>5,000</td>
<td>3,000</td>
<td>2,000</td>
</tr>
<tr>
<td>PV factor @ 10%</td>
<td>.909</td>
<td>.826</td>
<td>.751</td>
<td>.683</td>
<td>.621</td>
</tr>
</tbody>
</table>