

M.B.A DEGREE EXAMINATIONS: JUNE 2010

Third Trimester

P07BA202: FINANCIAL MANAGEMENT**Time: Three Hours****Maximum Marks: 100****Answer All Questions: -****PART A (1 x 20 = 20 Marks)**

1. A Company is considering the following investment projects:

Projects	<i>Cash Flows (Rs)</i>			
	C ₀	C ₁	C ₂	C ₃
A	-10,000	+10,000		
B	-10,000	+ 7,500	+ 7,500	
C	-10,000	+ 2,000	+ 4,000	+ 12,000
D	-10,000	+ 10,000	+ 3,000	+ 3,000

Rank the project according to each of the following methods:

(i) Payback, (ii) ARR, (iii) IRR and (iv) NPV, assuming discount rates of 10 and 30 percent

PART B (10 x 2 = 20 Marks)

2. What is financial management?
3. Write a note on no par stock.
4. A project costs Rs.1, 00,000 and yields annual cash inflow of Rs.20, 000 for 8 years.
Calculate its pay-back period.
5. Define capital budgeting.
6. What is share split?
7. What do you mean by Indifference Point / Level?
8. Write short notes on Inventory Management.
9. What is seasonable working capital?
10. Difference between Hire Purchase Financing and Lease Financing
11. Brief about Project Financing?

PART C (4 x 15 = 60 Marks)

12. (a) Explain the function of financial management.

(OR)

(b) Elaborate the techniques of Time Value of Money.

13. (a). The following information is available in respect of the rate of return on investment $\text{\textcircled{R}}$, capitalization rate (k_e) and earnings per share (E) of hypothetical ltd.

R = 12 per cent

E = Rs. 20

Determine the value of its shares, assume the following

	D/P RATIO (1-b)	RETENTION RATIO	$k_e\%$
(a)	10	90	20
(b)	20	80	19
(c)	30	70	18
(d)	40	60	17
(e)	50	50	16
(f)	60	40	15
(g)	70	30	14

(OR)

(b) (i) Discuss financial, operating, combined leverage with Example? (9)

(ii) Critically evaluate MM theory in Capital Structure. (6)

14. (a) "Efficient cash management will aim at maximizing the cash inflows and showing cash outflows". Discuss.

(OR)

(b) A proforma cost sheet of a company provides the following particulars:

Elements of cost	Amount per unit
	Rs.
Raw Material	80
Direct labour	30
Overheads	<u>60</u>
Total Cost	170
Profit	<u>30</u>
Selling price	<u>200</u>

The following further particulars are available:

Raw materials are in stock on an average for one month. Materials are in process on an average for half a month. Finished goods are in stock on an average for one month.

Credit allowed by suppliers is one month. Credit allowed to customers is two months.

Lag in payment of wages is 1½ weeks. Lag in payment of overhead expenses is one month.

One-fourth of the output is sold against cash. Cash in hand and at bank is expected to be Rs. 25,000.

You are required to prepare a statement showing the working capital needed to finance a level of activity of 1, 04,000 units of production.

You may assume that production is carried on evenly through out the year, wages and overheads accrue similarly and a time period of 4 weeks is equalant to a month

15. (a) Examine the recent trends in Capital market in India.

(OR)

(b) Explain the different types of long term sources of finance.
