

**M.B.A DEGREE EXAMINATIONS: MARCH 2011**

Third Trimester

**MASTER OF BUSINESS ADMINISTRATION**

MBA517: Financial Management

**Time: Three Hours****Maximum Marks: 100****PART A (1 x 20 = 20 Marks)**

1. A proforma cost sheet of a company provides the following particulars:

<b>Particulars</b>	<b>Amount per unit(Rs.)</b>
Raw material	80
Direct Labour	30
Over heads	60
Total Cost	170
Profit	30
Selling price	200

The following further particulars are available: (i) Raw material in stock, on an average one month; materials in process, on an average one month; Finished goods in stock on an average one month (ii) Credit allowed by suppliers is one month; Credit allowed to the debtors is two months; lag in payment of wages is one and a half 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 working capital needed to finance a level of activity of 104,000 units of production. You may assume that the production is carried on evenly throughout the year, and wages and overheads accrue similarly.

**PART B (10 x 2 = 20 Marks)**

2. Define Financial Management.
3. What is the importance of working capital for a manufacturing firm?
4. How do you calculate the accounting rate of return?
5. What is factoring?
6. State any two limitations of pay back period method of capital budgeting.
7. Define operating cycle.

8. What is a Commercial Paper?
9. What are the various sources of long term finance?
10. Differentiate Gross concept and Net concept of working capital
11. Define capital structure?

**PART C (4 x 15 = 60 Marks)**

12. (a) Explain the objectives of Financial Management.

**(OR)**

- (b) Enumerate the Role of Financial Managers in Planning and controlling the financial activities of a textile Industry.

13. (a) A company is considering two mutually exclusive projects. Both require an initial cash outlay of Rs. 10000 each, and have a life of five years. The company's required rate of return is 10 % and pays tax at 50% rate. The projects will be depreciated on a straight-line basis. The before taxes cash flows expected to be generated by the projects are as follows:

Project	Before-tax cash flows (Rs)				
	1	2	3	4	5
A	4000	4000	4000	4000	4000
B	6000	3000	2000	5000	5000

Calculate for each project: (i) Which project should be accepted and why?

**(OR)**

- (b) (i) The following data is pertaining to a capital investment:

Initial investment = Rs.6, 00,000

Life of the asset = 4 years

**Estimated Annual cash flows:**

I year = Rs. 1, 50,000

II Year = Rs. 2, 00,000

III year = Rs. 3, 00,000

IV year = Rs. 2, 00,000

Calculate internal rate of return (8)

- (ii) Two projects have been suggested to H Co. Ltd., The after-tax cash flows for each are tabulated below. If the firm's cost of capital is 12%, rank them in order of

profitability by using NPV method. The present value of Re. 1 @ 12% for the first four years are. 893., .797 .712 and .636 respectively. (7)

*After Tax Cash Flows*

<b>Period</b>	<b>0</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
<b>Project A</b>	- Rs. 18,000	+6,500	+6,500	+6,500	+6,500
<b>Project B</b>	- Rs. 30,000	+6,000	+10,000	+12,000	+16,000

14. (a) Explain the factors affecting dividend policy of a company

**(OR)**

(b) Explain Net Income, Net Operating Income and MM Approach in capital structure

15. (a) Explain the different techniques of Inventory Management.

**(OR)**

(b) (i) Why do companies in India offer credit sales? (7)

(ii) Explain the credit policy variables. (8)

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