



MBA DEGREE EXAMINATIONS: JUNE 2015

(Regulation 2014)

Second Semester

MASTER OF BUSINESS ADMINISTRATION

MBA626: Financial Management

Time: Three Hours

Maximum Marks: 100

Case Study

PART A (1 x 20 = 20 Marks)

1. *A pro forma* cost sheet of a company provides the following particulars: (K₃)

<i>Amount per unit</i>	
	<i>Rs</i>
Raw material	80
Direct labour	30
Overheads	60
Total cost	170
Profit	30
Selling price	200

The following further particulars are available:

- (a) Raw material in stock, on an average one month; materials in process, on average half a month; finished goods in stock, on an average one month.
- (b) Credit allowed by suppliers is one month; credit allowed to 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 1,25,000.

You are required to prepare a statement showing working capital needed to finance a level of activity of 2,00,000 units of production. You may assume that production is carried on evenly throughout the year, and wages and overheads accrue similarly.

Answer all the Questions:-

PART B (10 x 2 = 20 Marks)

2. Why is the consideration of time important in financial decision-making? (K₁)
3. Recall the different types of risks. (K₂)
4. Contrast “Mutually Exclusive Project” & “Contingent Project”. (K₂)

5. A company issues 10 per cent preference shares in perpetuity. The face value per share is Rs 100, but the issue price is Rs 105. Calculate the Cost of Preference Share. (K₃)
6. List out any four practical considerations in Determining Capital Structure. (K₁)
7. How does the change in sales influence EPS? (K₂)
8. Name the three principal motives for holding cash. (K₁)
9. What are the three phases in operating cycle of a manufacturing company? (K₁)
10. What is GDR? (K₁)
11. Interpret the term Operating Lease. (K₂)

PART C (4 x 15 = 60 Marks)

12. a) (i) “The Profit Maximization is not an operationally feasible criterion”. Do you agree? Illustrate your views. (10) (K₄)

- (ii) Why is the valuation concept relevant for financial decision making purposes? (5) (K₂)

(OR)

- b) (i) How should the finance function of an enterprise be organized? What functions do the financial officers perform? (5) (K₂)

- (ii) Elucidate the concept “Capital Rationing” and how would you select the investment projects under “Capital Constraint”? (10) (K₂)

13. a) (i) For X Ltd the following data is available: (K₄)

EBIT	Rs 200
Contribution	400
Interest	100

If the company’s sales are expected to decline by 5 per cent, determine the percentage change in EPS.

- (ii) The expected earnings of firms A and B are Rs 120,000 with a standard deviation of Rs 30,000. Firm A is non-levered. Firm B is levered and has to pay annual interest charges of Rs 30,000. Which firm is more risky? Defend your answer. (K₅)

(OR)

- b) (i) The following data relate to a firm: (K₃)
- Earnings Per Share Rs.10/-
 - Capitalization Rate 10 per cent
 - Retention Ratio 40 per cent

Identify and assess the price per share under Walter’s and Gordon’s models if the

internal rate of return is 15 per cent, 10 per cent and 5 per cent.

(ii) Explain the MM approach in Capital Structure with suitable examples. (K₂)

14. a) A new machine will cost Rs 1,00,000. It is expected to provide profits before depreciation and tax of Rs 50,000 each in years 1 and 2 and Rs 60,000 each in years 3 and 4. Assuming a straight-line depreciation and tax rate is 30%, (K₃, K₄, and K₅)

i. Evaluate the new machine using NPV and PI if the discount rate is 20%.

ii. Find the maximum amount to be paid for buying a new machine if the discount rate is 20%.

iii. Calculate the Internal Rate of Return of the new machine.

Conclude, whether the purchase of new machine will create wealth or not using NPV, IRR and PI.

(OR)

b) (i) Enumerate the factors that determine the working capital needs of a firm. (K₁)

(ii) Elucidate the different approaches of working capital financing with suitable charts and examples. (K₂)

15. a) (i) Explain the objective of Credit Policy? What is an optimum Credit Policy? Discuss. (K₂)

(ii) Why should inventory be held? Explain the objectives of inventory management? (K₂)

(OR)

b) (i) Paraphrase the differences in between Lease Financing and Hire Purchase Financing. And also discuss the tax implications on leasing and hire purchasing. (K₂)

(ii) Summarize the various stages of Venture Capital Financing. (K₂)
