



MBA DEGREE EXAMINATIONS: JAN 2015

(Regulation 2012)

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 proforma cost sheet of a company provides the following particulars:

Particulars	Amount per unit(Rs.)
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 on 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 s 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.

Answer all the Questions:-

PART B (10 x 2 = 20 Marks)

2. Define financial management.

3. Differentiate risk and return.
4. State the importance of capital rationing.
5. What is meant by weighted average cost of capital?
6. Differentiate operating and financial; leverage.
7. What is meant by optimum capital structure?
8. State the importance of operating cycle?
9. What is meant by Lock box system?
10. What are the main features of preference shares?
11. Differentiate ADR and GDR.

PART C (4 x 15 = 60 Marks)

12. a) How should the finance function of an enterprise be organized? What functions do the financial manager perform?

(OR)

- b) Explain in detail the different methods of valuing shares and bonds with suitable examples?

13. a) A company is considering an investment proposal to install new milling controls at accost of Rs. 50,000. The facility has a life expectancy of 5 years and no salvage value. The tax rate is 35%. Assume the firm uses straight line depreciation and the allowed in tax purposes. The estimated cash flows before depreciations and tax from the investment proposals are as follows.

Year	CFBT
1	Rs. 10000
2	Rs. 10692
3	Rs. 12769
4	Rs. 13462
5	Rs. 20385

Compute: 1. Payback period, 2. Average rate of return, 3. Net Present Value
4. Internal rate of return and 5. Profitability index at 10% discount rate.

(OR)

- b) The Servex Company has the following capital structure on 30 June 2014:
(Rs '000)

Ordinary shares (200,000 shares)	4,000
10% Preference Shares	1,000
14% Debentures	3,000

The share of the company sells for Rs.20. It is expected that company will pay next year a dividend of Rs.2 per share, which will grow at 7 percent forever. Assume a 50 percent tax rate.

You are required to:

- (a) Compute a weighted average cost of capital based on the existing capital structure
- (b) Compute the new weighted average cost of capital if the company raises an additional Rs, 2000,000 debt issuing 15 percent debenture. This would result in increasing the expected dividend to Rs.3 and leave the growth rate unchanged, but the price of share will fall to Rs.15 per share.
- (c) Compute the cost of capital if in (b) above growth rate increases to 10 percent.

14. a) Calculate operating leverage and financial leverage under situations 1 and 2 and financial plans A and B respectively from the following information relating to the operation and capital structure of a company. What are combinations of operating and financial leverage which give highest and value?

Installed capacity	2,000 units
Annual production and sales capacity	50% of installed capacity
Selling price per unit	Rs. 20
Variable cost per unit	Rs. 10
Fixed Costs:	
Situation 1:	Rs. 4,000
Situation 2:	Rs. 5,000
Capital Structure:	

	Financial Plan	
	↓ A	↓ B
	(Rs)	(Rs)
Equity	5,000	15,000
Debit (cost 10%)	<u>15,000</u>	<u>5,000</u>
	<u>20,000</u>	<u>20,000</u>

(OR)

- b) (i) Explain NI and NOI approaches with suitable examples. (8)
- (ii) Explain and Illustrate Walters and Gordon's model according to which dividends are relevant and effect the value of the firm? (8)
15. a) (i) Explain the factors affecting working capital of a concern. (8)
- (ii) Discuss about the management of accounts receivables with suitable examples (8)

(OR)

- b) Explain in detail (a) stages of venture capital (b) GDR and ADR and (c) types of leasing
