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M.B.A. (CBCS) DEGREE EXAMINATION,
NOVEMBER 2013.

Third Semester

Business Administration

FINANCIAL MANAGEMENT

(For those who joined in July 2012 onwards)

Time : Three hours

Maximum : 75 marks

PART A — ($10 \times 1 = 10$ marks)

Answer ALL questions.

Choose the correct answer :

1. The only viable goal of financial management is
 - (a) Profit Maximisation
 - (b) Sales Maximisation
 - (c) Wealth Maximisation
 - (d) Asset Maximisation



2. Debt is cheaper because
- (a) Interest is tax deductible
 - (b) Investor Expected Rate of Returns is less
 - (c) Investor's risk is less
 - (d) All the above
3. The difference between present value of future cash inflow and outflow is
- (a) NPV
 - (b) PVI
 - (c) IRR
 - (d) ARR
4. The choice of investment proposals under financial constraints
- (a) Capital proposal
 - (b) Capital Rationning
 - (c) Capital cost
 - (d) WACOC
5. Which of the following is NOT current asset?
- (a) Cash
 - (b) Debtors
 - (c) Prepaid Expenditure
 - (d) Preliminary Expenditure

6. Which of the following is long-term finance?
- (a) Treasury Bill
 - (b) Commercial Bills
 - (c) CDs
 - (d) Equity shares
7. Maintaining the balance to meet unexpected cash needs is called
- (a) Transaction meet
 - (b) Precautionary motive
 - (c) Speculative motive
 - (d) Compensation motive
8. The relationship between operating income and residual income is
- (a) Operating leverage
 - (b) Financial leverage
 - (c) Combined leverage
 - (d) No leverage
9. Optimum capital structure implies
- (a) Maximum cost of capital
 - (b) Minimum cost of capital
 - (c) Normal cost of capital
 - (d) Maximum value of the firm



10. Capital structure means .

- (a) Entire liability side
- (b) Proportion of long term funds
- (c) Long-term and short term funds
- (d) Only equity

PART B — (5 × 5 = 25 marks)

Answer ALL the questions, choosing either (a) or (b).

11. (a) Define financial management and state its objectives.

Or

(b) What is cost of capital and explain the methods of computing overall cost of capital?

12. (a) State the sources of working capital to a firm.

Or

(b) What is cash management and explain the motives of Holding cash?

13. (a) Jupiter construction limited has earned EBIT Rs. 5 lakhs. The Company's capital structure includes 20,000, 14% debentures of Rs. 100 each. The overall capitalization rate of the firm is 16%. Calculate total value of the firm and equity capitalization rate. (Use N01 approach)

Or

(b) Given :

	Rs.
Equity capital	1,20,000
Pre. Share capital	1,30,000
General reserve	30,000
Surplus	20,000
General fund	10,000
P & L a/c	20,000
Bank loan	35,000
Debentures	10,000
Cash	17,000



	Rs.
Bank overdraft	7,000
B/R	3,000
B/P	2,000
Patent	3,000

Compute long-term fund or capital structure.

14. (a) What is dividend policy and explain the types of dividend policy?

Or

- (b) ABC Ltd., was started a year back with a paid up equity capital of Rs. 40,00,000. The other details are as under :

Earnings of the company : Rs. 4,00,000

Dividend paid – Rs. 3,20,000

Price – Earning Ratio – 12.5

No. of shares – Rs. 40,000.

You are required to find out whether the company's dividend payout ratio is optimal using Walters formula.

15. (a) Calculate operating and financial leverage

Interest – Rs. 5,000

Sales – Rs. 5,000

Sales (in units) – 1,000 units

Variable cost – Rs. 25,000

Fixed cost – Rs. 15,000.

Or

- (b) What is leverages and explain various types of leverages.

PART C — (5 × 8 = 40 marks)

Answer ALL questions, choosing either (a) or (b).

16. (a) What is capital budgeting? State the techniques of capital budgeting to assess economic viability of projects.

Or

- (b) Project X initially costs Rs. 25,000. It generates the following cash flows :

Year	Cash flows Rs.
1	9,000
2	8,000



Year	Cash flows Rs.
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3	7,000
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4	6,000
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5	5,000
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Taking the cut-off rate at 10% suggest whether the project should be accepted or not based on :

(i) Net present value

(ii) PV Index method, Also calculate

(iii) Pay-back period.

17. (a) Elucidate the factors determining to estimate the working capital requirement of a firm.

Or

- (b) Compute the working capital on the basis of following informations :

	Rs.
Stock	10,000
Purchases	1,05,000
Sales	1,60,000

	Rs.
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Wages	20,000
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Salary	5,000
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Rent	1,000
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Debtors	10,000
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Creditors	2,000
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B/R	5,000
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B/P	5,000
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Cash in hand	15,000
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Bank	5,000
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18. (a) What is capital structure and state the components of capital structure?

Or

- (b) Explain in brief N1 Approach N01 approach of capital structure theories with example.

19. (a) A company has belongs to a rich-class for which the appropriate capitalization rate is 10%. It currently has out-standing 25,000 shares selling at Rs. 100 each. The firm is contemplating the declaration of dividend of Rs. 5 per share, at the end of current financial year.



The company expect to have a net income of Rs. 25 lakhs and has a proposal for making new investments of Rs. 5 lakhs.

Show that, under MM assumption, the payment of dividend does not affect the value of the firm.

Or

- (b) Details regarding three companies are given below :

A Ltd.	B Ltd.	C Ltd.
$r = 15\%$	10%	8%
$K_e = 10\%$	10%	10%
$E = \text{Rs. } 10$	Rs. 10	Rs. 10

Use the Walter's model you are required to :

- (i) Calculate the value of equity shares of each of three companies when dividend pay-out ratio is

- (1) 20%
- (2) 50%
- (3) 0% and
- (4) 100%

- (ii) Comment on Result drawn.

20. (a) The following projections on related to companies A and B –

	A	B
Sales (units)	80,000	1,00,000
Variable cost per unit :	Rs. 4	Rs. 3
Fixed cost	2,40,000	2,50,000
Interest on debt	1,20,000	50,000
Selling price per unit	10	8

On the basis of above data compute :

- (i) Operating leverage
- (ii) Financial leverage
- (iii) Total leverage.

Or

- (b) What are the analytical methods and devices used in analyzing financial statement of companies?

