

Reg. No. :

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M.B.A. (CBCS) DEGREE EXAMINATION,
APRIL 2024.

Second Semester

Business Administration — Core

FINANCIAL MANAGEMENT

(For those who joined in July 2023 onwards)

Time : Three hours

Maximum : 75 marks

PART A — (15 × 1 = 15 marks)

Answer ALL questions.

Choose the correct answer.

1. Financial management is an area of financial _____.
(a) Decision making (b) Marketing
(c) Companies (d) Organizations
2. Shares represent ownership in a _____.
(a) Corporation
(b) Partnership
(c) Sole proprietorship
(d) Trust

- (ii) Processing time 4 weeks
 - (iii) Finished goods are in stock for 5 weeks
 - (iv) Period of credit allowed to debtors 10 weeks
 - (v) Lag in payment of wages 2 weeks
 - (vi) Period of credit allowed by creditors 4 weeks
 - (vii) Selling price Rs. 50 per unit.
 - (viii) Production in unit 13,000 per annum.
- Prepare an estimate of working capital.
- _____



3. Capital market primarily deals with _____.
- (a) Short term debt securities
 - (b) Long term debt and equity securities
 - (c) Foreign currency exchange
 - (d) Commodities trading
4. What does a higher ARR indicates?
- (a) Lower profitability
 - (b) Higher profitability
 - (c) No relationship with profitability
 - (d) Uncertain profitability
5. _____ is the technology behind crypto currencies like Bit coin.
- (a) Block chain
 - (b) Artificial intelligence
 - (c) Quantum Computing
 - (d) Cloud Computing
6. _____ is a hurdle rate in financial modeling.
- (a) The interest rate charged on a loan
 - (b) The minimum rate of return required by investors
 - (c) The discount rate used to calculate present value
 - (d) The rate of inflation

7. _____ affects the cost debt.
- (a) Market risk premium
 - (b) Company's beta coefficient
 - (c) Corporate tax rate
 - (d) Dividend yield
8. Cost of retained earnings is _____.
- (a) The interest rate on debt financing
 - (b) The return required by equity investors
 - (c) The weighted average of debt and equity financing costs
 - (d) The cost of raising new equity capital
9. How does a company stock split affect its EPS?
- (a) It increases the EPS.
 - (b) It decreases the EPS
 - (c) It has no effect on the EPS
 - (d) It depends on the company's financial performance
10. The optimum capital structure is obtained when the market value per equity share is _____.
- (a) Minimum
 - (b) Maximum
 - (c) Low
 - (d) Medium



11. MM theory speaks of the irrelevance of dividend decision on _____.
 (a) Value (b) Risk
 (c) Return (d) Liquidity
12. If a company does not have liquid resources it is better to declare _____.
 (a) Cash dividend (b) Stock dividend
 (c) Interim dividend (d) Final dividend
13. Permanent working capital is also termed as _____.
 (a) Variable of working capital
 (b) Seasonal working capital
 (c) Core working capital
 (d) Fluctuating working capital
14. The objective of receivable management is to promote _____.
 (a) Cost (b) Management
 (c) Staff (d) Sales and profit
15. Inventory system based on inventories received in time is known as _____.
 (a) ABC (b) EOQ
 (c) JIT (d) FSN

PART B — (5 × 4 = 20 marks)

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

16. (a) Define financial management and explain its scope.
 Or
 (b) Write the significance of the money market.
17. (a) State the features of crypto currency.

Or

- (b) Company XYZ is considering investing in a new project that requires an initial investment of Rs. 50,000. The expected cash flows from the project are as follows :

Year	Amount (Rs.)
1	15,000
2	20,000
3	25,000
4	30,000

Calculate the payback period for this project.



18. (a) What is EBIT – EPS Analysis?

Or

(b) AMCO Company is earning a net profit of Rs. 25,00,000 per annum. The shareholders' expected Rate of Return is 15%. The marginal tax rate is 30%. Investment of the retained earnings in new shares involves brokerage cost of 3%. Assuming that the entire earnings are distributed to the shareholders. Determine the cost of Retained Earnings.

19. (a) Classify the types of dividend policy.

Or

(b) Two firms A and B are identical in all respects except the degree of leverage. Firm A has 6% debt of Rs. 3,00,000 while firm B has no debt. Both the firms earn an EBT of Rs. 1,20,000 each. The equity capitalization rate is 10% and the corporate tax is 60%. Compute the market value of the two firms under MM Approach.

20. (a) Write down the objectives of cash management.

Or

(b) A refrigerator manufacturer purchases 1,600 units of a certain component. His annual usage is 1,600 units. The order placing cost is Rs. 100 and the cost of carrying one unit for a year is Rs. 8. Calculate the EOQ.

PART C — (5 × 8 = 40 marks)

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

21. (a) Elucidate the functions of financial management.

Or

(b) Describe the role of financial information systems in modern organizations.

22. (a) Define hurdle are in financial modeling and explain its importance in investment decision making.

Or



- (b) X Ltd is contemplating the purchase of a machine. The machine "A" and "B" are available each costing Rs. 1,20,000. The company uses discount rate of 8% for computing profitability of projects. Earnings after taxation and before depreciation are expected to be as below :

Year	Machine A	Machine B
1	30,000	20,000
2	40,000	50,000
3	40,000	40,000
4	30,000	40,000
5	20,000	10,000

Decide which machine would be more profitable. Apply profitability Index Method.

23. (a) What is the cost of preference share and explain various approaches for computing it?

Or

- (b) A company has Rs. 1,00,000, 10% debentures and 5,000 equity shares outstanding. It is in the 35 per cent tax bracket. Assuming three levels of EBIT (i) Rs. 50,000 (ii) Rs. 30,000 and (iii) Rs. 70,000. Calculate the change in EPS (Base level of EBIT = Rs. 50,000).

Page 8 Code No. : 7698

24. (a) As a financial manager which factors will you consider while devising a dividend policy of a company.

Or

- (b) A company expects a net operating income of Rs. 1,00,000. It has Rs. 5,00,000, 6% debentures. The overall capitalization rate is 19%. (i) Calculate the value of the firm and the equity capital rate according to the Net Operating Income Approach. (ii) If the debenture debt is increased to Rs. 7,50,000, what will be the effect on the value of the firm and the equity capitalization rate?

25. (a) Enumerate the techniques of inventory management.

Or

- (b) Cost sheet of a company provides the following particulars :

Raw materials 40%; Labor 10%; Overheads 30%

The following details are also available.

- (i) Raw materials remain in stores for 6 weeks

Page 9 Code No. : 7698

