

**A14**

**Sreenidhi Institute of Science & Technology**

(An Autonomous Institution)

**Code No: 4Z210**

**MBA I - YEAR II – SEMESTER, AUGUST 2015 (Regular)**

**FINANCIAL MANAGEMENT**

**Time: 3 Hours Max. Marks: 60**

**Note: No additional answer sheets will be provided.**

**Part – A**

**Max. Marks: 10**

**Answer all the QUESTIONS**

**Define / explain the following:**

1. Wealth Maximization
2. Present Value of Money
3. Profitability Index
4. Discounted Cash Flow techniques
5. Capital Structure
6. Earnings Per Share
7. Net Working Capital
8. Credit Policy
9. Just In Time
10. Bonus Shares

**Part – B**

**Max. Marks: 50**

**ANSWER ANY FIVE. ALL QUESTIONS CARRY EQUAL MARKS.**

1. Elaborate Profit maximization Vs Wealth maximization concepts. Which one of the two do you think is appropriate and why?
2. XYZ Company is considering the following proposals:

|  |  |  |
| --- | --- | --- |
| Project | Cost (Rs) | NPV (Rs.) |
| A | 1,000 | 210 |
| B | 6,000 | 1,560 |
| C | 5,000 | 850 |
| D | 2,000 | 260 |
| E | 2,500 | 500 |
| F | 500 | 95 |

You are required to calculate Profitability index for each project and rank them. Which combination of projects would you choose, if the total funds available are Rs. 8,000 and projects are indivisible so as to maximize the profit.

1. The following is the capital structure of Jyothi Ltd:

|  |  |  |
| --- | --- | --- |
|  | Amount(Rs.) | Specific Cost |
| Equity Share Capital | 20,00,000 | 11% |
| Preference Share Capital | 5,00,000 | 8% |
| Retained Earnings | 10,00,000 | 11% |
| 9% Debentures | 15,00,000 | 4.5% |

Find out the weighted average cost of capital assuming that the company is at 50% income tax bracket.

1. Define working capital and discuss in detail different sources to finance working capital requirements of a manufacturing company.
2. Z Ltd started a business on 01-01-2014, with a capital of Rs.40,000. The estimates sales and purchases for the next 6 months are as follows:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Particulars | Amount in Rs. | | | | | |
|  | Jan | Feb | Mar | Apr | May | Jun |
| Sales | 24,000 | 40,000 | 48,000 | 48,000 | 52,000 | 48,000 |
| Purchases | - | 32,000 | 60,000 | 68,000 | 68,000 | 80,000 |

50% purchases are paid for in the same month and the balance is paid during next month. Of the sales, 40% is on cash basis and the balance is released in the next month. Manufacturing expenses amounted to Rs. 8,000 per month. It purchased a machine for Rs. 12,000 in February and payment for which is made during the same month.

Prepare cash budget for the 6 months ending 30-06-2014.

1. A firm has a sales of Rs.10,00,000, Variable cost @70% and Fixed cost of Rs. 2,00,000. It has a debt of Rs. 5,00,000 at 10% rate of interest. Calculate the operating, Financial and Combined leverages. If the firm wants to double its EBIT, how much of a raise in sales would be needed on a percentage basis?
2. What is Modigliani-Miller’s irrelevance hypothesis of dividend payment theory? Critically evaluate with its assumptions.

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