C 23470 **(Pages : 4)** **Name.....**

Reg. No.....

SECOND SEMESTER M.B.A. DEGREE EXAMINATION, JULY 2022

(CUCSS)

M.B.A.

BUS 2C 11—FINANCIAL MANAGEMENT

Time : Three Hours Maximum : 36 Weightage

Part A

Answer **all** *questions.*
Each question carries 1 *weightage.*

1. Explain the concept of Time value of money.
2. Differentiate the hard and soft capital rationing.
3. What is NPV ? State the merits of NPV.
4. Mention the objectives of inventory management.
5. Distinguish between over capitalisation and under capitalisation.
6. Briefly explain the concept of financial engineering.

(6 × 1 = 6 weightage)

Part B

Answer any **four** *questions.*
Each question carries 3 *weightage.*

7. Explain the role of finance manager in modern age.
8. X Ltd, presents the following capital structure data :

Source	Rs.
Ordinary shares (1000 shares)	50,000
10% Preference shares	20,000
12% Debentures	15,000
Total	85,000

The dividend payment of the company is @ of 5%. Further the company raises additional funds for replacement of assets of 14% debenture amounting 10,000. You are asked to find out weighted average cost of capital of existing as well as new capital structure.

Turn over

9. What are the practical considerations to be kept in mind at the time of shaping dividend policy ?

10. A new firm is considering choice between the following alternative projects. As a financial manager, which project would you prefer and why ?

	Project 1 Rs.	Project 2 Rs.
Down payment (Cash outflow)	4,00,000	1,60,000
Present value of expected future Cash Inflows	8,00,000	4,00,000
Profitability Index	2.0	2.5

11. Both excess working capital and insufficient working capital are not good for a business house. Discuss.

12. Illustrate traditional approach of capital structure using the following information :

EBIT - 4,00,000

Equity capitalisation Rate :

10% - When employs no debt

11% - When employs 8,00,000 5% debentures

13% - When employs 12,00,000 6% debentures.

(4 × 3 = 12 weightage)

Part C

Answer any **three** *questions.*
Each question carries 4 *weightage.*

13. Compare and contrast NI Approach and NOI Approach.

14. A pro forma cost sheet of a company provides the following particulars :

Elements of cost :

Raw materials	-	40%
Wages	-	10%
Overheads	-	30%

The following further particulars are available :

(1) Raw materials are to remain in stores on an average - 5 weeks

(2) Finished goods are expected to be in stock on an average - 10 weeks

(3) Processing time - 4 weeks

(4) Credit period allowed to debtors - 8 weeks

(5) Credit period allowed by creditors - 6 weeks

(6) Lag in payment of wages - 2 weeks

(7) Level of production - 1,09,200 units

(8) Selling price per unit - 60

Prepare an estimate of working capital requirements assuming 10% margin for contingencies.

15. What is capital budgeting ? Explain various techniques of capital budgeting.

16. Navaratnam Ltd belongs to a risk class of which the capitalisation rate is 10%. It currently has 1,00,000 shares selling at 100 each. The company is thinking of declaring 6 per share as dividend at the end of the current year which has just begun. On the basis of MM model, answer to the following questions :

(a) What will be the price of the shares at the end of the year if a dividend is not declared ?

(b) What will be the price if dividend is declared ?

(c) Assuming that the firm pays dividend, has net income of 10 lakh and makes new investments of 20 lakh during the period, how many new shares must be issued ?

17. The average rate of dividend paid by X Ltd. for the last five years is 21%. The earnings of the company have recorded a growth rate of 3% per annum. The market value of the equity shares is estimated to be 105. Find out :

a) The cost of equity share capital.

b) Determine the estimated market price of the equity shares if the anticipated growth rate of the firm rises to 5%.

c) If the company's cost of capital is 20% and the anticipated growth rate is 5%, determine the market price of the share, assuming the same dividend per share.

(3 × 4 = 12 weightage)

Turn over

Part D (Compulsory)

It carries 6 *weightage.*

18. Grund corporation's capital structure consists of the following :

	Rs.
Equity share of 100 each	10,00,000
Retained earnings	5,00,000
9% preference shares	6,00,000
7% debentures	4,00,000
Total	25,00,000

The company earns 12% on its capital. The company is in 50% tax bracket. The company requires 12,50,000 for the expansion programme for which the following three alternatives are available.

(i) Issue of 10,000 equity shares at a premium of 25/share.

(ii) Issue of 10% preference shares.

(iii) Issue of 8% debentures.

Which of the three financing alternative would you recommend ? Why ?

(1 × 6 = 6 weightage)