Hall Ticket No | | | | | | | | | | | Question Paper Code: CMB008

INSTITUTE OF AERONAUTICAL ENGINEERING

(Autonomous)

MBA II Semester End Examinations (Supplementary) - January, 2018

Regulation: IARE–R16

FINANCIAL MANAGEMENT

(Master of Business Administration)

Time: 3 Hours **Max Marks: 70**

Answer ONE Question from each Unit
All Questions Carry Equal Marks
All parts of the question must be answered in one place only

UNIT – I

1. (a) "Financial management is basically concerned with procurement and use of funds" Elucidate the above statement in the light of main objectives of financial management. **[7M]**

   (b) Explain briefly the relationship of finance with other business functions. **[7M]**

2. (a) Explain the key decisions of financial management. **[7M]**

   (b) Calculate the FV of Rs.50000 invested today at 10% interest for 5years if **[7M]**
      i. Annual compounding
      ii. Semi-annual compounding
      iii. Quarterly compounding
      iv. Monthly compounding

UNIT – II

3. (a) Explain the steps involved in capital budgeting process. **[7M]**

   (b) X limited is planning to replace an old machine with a new one. The cost of the new machine is Rs.540000, installation charges will be Rs.20000. It is expected that additional working capital requirement will be Rs.40000. The old machine was bought two years ago at a cost of Rs.140000 and it has economic life of 7 years. It was depreciated on straight line basis. A buyer is willing to purchase this machine for Rs.180000 and will also bear removal expenses. It is in 55% income tax rate and capital gains are taxed @30%. Estimate the net investment (Cash-outflow at zero time period) **[7M]**

4. (a) What is weighted average cost of capital? Explain the steps involved in the calculation of weighted average cost of capital. **[7M]**

   (b) A company is planning to raise equity, preference & debt capital in the following proportions:
   Equity : 0.50 **[7M]**
   Preference : 0.20
   Debt : 0.30
   The cost of the sources of finance for different levels of usage has been estimated as shown in Table 1.

Table 1

Source of finance	ange of new financing from the source (Rs.in lakh)	Cost%
Equity	0-15	16.00
	15-25	17.00
	25 and above	18.00
Preference	0-3	14.00
	3 and above	15.00
Debt	0-20	8.00
	20 and above	10.00

UNIT – III

5. (a) Elucidate the factors to be considered in planning the capital structure of an organization. **[7M]**

   (b) A Ltd., company has ESC of Rs.500000 divided into shares of Rs.100 each. It wishes to raise further Rs.300000 for expansion cum modernization plans. The company plans the following financing schemes: **[7M]**

   a) All common stock

   b) Rs.1 lakh in common stock and Rs.2 lakhs in debt @ 10% p.a all debts at 10% p.a

   c) Rs.1 lakh in common stock and Rs.2 lakhs in PSC with the rate of dividend at 8%.

   The company's expected EBIT are Rs.150000. The corporate rate of tax is 50%. Determine the EPS in each plan and comment on the implications of financial leverage.

6. (a) What do you understand by financial leverage? State its merits and limitations. **[7M]**

   (b) X Ltd., has a total capitalization of Rs.1000000 consisting of equity shares of Rs.50 each. It wishes to raise another 5 lakhs for expansion through one of its two possible financial plans. **[7M]**

   a) All equity shares of Rs.50 each

   b) All debentures carrying 9% interest.

   Tax rate is 50%. Calculate EBIT level at which EPS would remain the same irrespective of raising funds through equity shares or debentures.

UNIT – IV

7. (a) Distinguish between interim dividend and final dividend. **[7M]**

   (b) Explain the various external and internal factors influencing dividend policy. **[7M]**

8. (a) How do you calculate operating cycle duration? **[7M]**

   (b) From the Table 2 information supplied to you, determine the market value of equity shares of X company as per Walter's model.Are you satisfied with the current dividend policy of the firm? If not what should be the optimum dividend payout ratio in this cases. **[7M]**

Table 2

Earnings of the company	Rs.500000
Dividend paid	Rs.300000
No. of shares outstanding	100000
Price earnings ratio	8
Rate of return on investment	0.15

UNIT – V

9. (a) Explain the major recommendation of Tandon committee on working capital. **[7M]**
   (b) What are four primary motives for maintaining cash balance? Explain. **[7M]**

10. (a) Explain the significance of cash budget. **[7M]**
    (b) ABC Company Ltd., is considering relaxing its collection efforts. Its sales are Rs.40 million, its ACP is 20 days, its variable costs to sales ratio is 80 its cost of capital is 12% and its bad debt is 5%. The relaxation in collection effort is expected to push sales up by Rs. 5 million, increase the ACP to 40 days, and raise the average bad debts ratio to 6%. The tax rate is 40%.From the above information analyze the effect of relaxing the collection effort on net profit. **[7M]**

– ∘ ∘ ◯ ∘ ∘ –