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Question Paper Code: CMBB17



INSTITUTE OF AERONAUTICAL ENGINEERING

(Autonomous)

MBA II Semester End Examinations (Regular) - May, 2019

Regulation: IARE-R18

FINANCIAL MANAGEMENT

Time: 3 Hours

(MBA)

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) Define financial management. Discuss the main functions of financial manager. [7M]
 (b) Write a short note on profit maximization and wealth maximization. [7M]
2. (a) What is risk and return? Discuss the risk and return relationship in detail. [7M]
 (b) What is time value of money? Discuss the advantages of time value of money in financial decisions. [7M]

UNIT – II

3. (a) What is capital budgeting? Briefly discuss the techniques of capital budgeting with their merits and limitations. [7M]
 (b) A project needs an investment of Rs. 1385000. The cost of the capital is 12%. The net cash inflows are as in Table 1. Calculate NPV at 12%. [7M]

Table 1

Year	1	2	3	4	5
CFAT	300000	400000	600000	300000	200000

4. (a) Define cost of capital? Evaluate cost of debt and cost of preference by taking respective examples? [7M]
 (b) The capital structure and after tax cost of different sources of funds are given in Table 2. [7M]

Table 2

Sources	Amount	Proportion	After Tax Cost %
Equity Share Capital	720000	.30	15
Retained Earnings	600000	.25	14
Preference Share Capital	480000	.20	10
Debentures	600000	.25	8

Compute the weighted average cost of capital.

UNIT – III

5. (a) What is capital structure? What are the main determinants of capital structure? [7M]
(b) XYZ Ltd., produced and sold 1,00,000 units of a product at the rate of Rs.10 per unit. For production of 1,00,000 units it has spent a variable cost of Rs.6,00,000 at the rate of Rs.6 per unit and a fixed cost of Rs.2,50,000. The firm has paid interest Rs.5,000 at the rate of 5 per cent on Rs.1,00,000 debt. Calculate operating and financial leverages [7M]
6. (a) Write short notes on traditional approach and modern approach in capital structure. [7M]
(b) Balance sheet of X Ltd., as on 31-3-2000 is shown in Table 3: [7M]

Table 3

Liabilities	Amount	Assets	Amount
Equity Capital (Rs.10 per share)	60000	Net Fixed Assets	150000
10% Debentures	80000	Current Assets	50000
Retained Earnings	20000		
Current Liabilities	40000		
	200000		200000

The company's total assets turnover ratio is 3. Its fixed operating costs are Rs.100000 and its variable operating cost ratio is 40%. The income tax rate is 50%.

- i) Calculate for the company's all the three types of leverages.
ii) Determine the likely level of EBIT if EPS is Rs.5.

UNIT – IV

7. (a) Define working capital. Distinguish the gross working capital and net working capital. [7M]
(b) Write short notes on bonus issue and rights issue as well as their legal aspects in financial decisions. [7M]
8. (a) What are the determinants of working capital. Explain its nature and scope. [7M]
(b) Briefly discuss the different forms of the dividends providing by the financial manager. [7M]

UNIT – V

9. (a) Define inventory management? Explain the inventory control techniques? [7M]
(b) Determine reorder level, minimum level, maximum level and average stock level: [7M]
Normal Usage – 100 units per week: Lead Time – 4 to 6 weeks
Minimum Usage – 50 units per week: maximum usage – 150 per week,
Re-order Quantity – 600 units.

10. (a) Discuss the recommendations of Daheja Committee and Tandon committee on capital budgeting. [7M]
- (b) Prepare an estimate of working capital requirement from the following information of a trading concern. Allow 10% on contingencies. [7M]
- i) Project annual sales 1, 00,000 units.
 - ii) Selling price Rs. 8 per unit.
 - iii) Percentage of net profit on sales 25
 - iv) Average credit period allowed to customers 8 weeks
 - v) Average credit period allowed by suppliers 4 weeks
 - vi) Average stock holding in terms of sales requirements 12 weeks.

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