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Question Paper Code: CMBB17



INSTITUTE OF AERONAUTICAL ENGINEERING

(Autonomous)

Dundigal, Hyderabad - 500 043

MODEL QUESTION PAPER

MBA II Semester End Examinations, June - 2020

Regulation: IARE-R18

FINANCIAL MANAGEMENT

(Master of Business Administration)

Time: 3 Hours

Max Marks: 70

Answer any 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) Examine the meaning of financial management. Demonstrate the nature and scope of financial management. [7M]
- b) Define financial management. Explain the new role of financial management in contemporary scenario. [7M]
- 2 a) Explain the concept of financial management. Illustrate the evolution and goals of financial management. [7M]
- b) Examine the traditional approach and modern approach to financial decisions. [7M]

UNIT - II

- 3 a) Define investment decision. Describe the features and importance of investment decisions. [7M]
- b) Company has an investment opportunity costing Rs.50,000 with the following expected net cash flows after taxes and before depreciation. [7M]

Years	Net Cash Flows (Rs.)	PV. of Rs.1 @10% D.f
1	20,000	0.909
2	15,000	0.826
3	25,000	0.751
4	10,000	0.683

Table 1

Using 10% as the cost of capital determine

(i) Pay-back Period

(ii) Net Present Value @ 10% D.f. and

(iii) Profitability Index @ 10% D.f

- 4 a) Demonstrate the concept of capital budgeting. Discuss the significance of capital budgeting. [7M]
- b) A company has 15% preferential debt of Rs.1,00,000. The tax rate is 35%. Determine the cost of capital before tax and after tax assuming Debt is issued
 - (a) At par
 - (b) At 10% discount
 - (c) At 10% premium.

UNIT – III

- 5 a) Define capital structure. Explain the features and factors determining capital structure. [7M]
 b) Determine operating leverage, financial leverage and combined leverage from the following information. [7M]
 Interest RS.7,500
 Sales Rs.75,000
 Variable cost Rs. 37,500
 Fixed cost Rs.20,000
- 6 a) Define capitalization. Discuss traditional approach theory of capital structure and Modigliani Miller approach theory of capitalization. [7M]
 b) Calculate the Indifference point / Break- even point and operating leverage and suggest which project is more risky from the following: [7M]

Particulars	Project-X	Project-Y	Project-Z
Sales per unit	Rs.90	Rs.60	Rs.20
Variable cost per unit	Rs 60	Rs.18	Rs.10
Fixed operating cost Rs	Rs.3,00,000	Rs.4,20,000	Rs.2,00,000

Number of units produced and sold = 12,000 units.

UNIT – IV

- 7 a) Define working capital. Critically examine the classification of working capital and importance of working capital. [7M]
 b) The following information available in respect of the rate of return on investment (r) , the capitalization are (ke) and earning per share (E) of Hypothetical Ltd. [7M]
 r = 12 percent
 E= 20 percent
 Determine the value of its shares, assuming the following

	D / P Ratio (1-b)	Retention Ratio (b)	Ke (%)
i)	10	90	20
ii)	20	80	19
iii)	30	70	18
iv)	40	60	17
v)	50	50	16
vi)	60	40	15
vii)	70	30	14

Compute the price of shares of Hypothetical Ltd under Gordon's model.

- 8 a) Define bonus share. Briefly explain the objectives and advantages of bonus shares. [7M]
 b) The earnings per share of company is Rs.8 and the rate of capitalization applicable is 10%. The company has before it an option of adoption. [7M]
 i) 50%
 ii) 75%
 iii) 100% dividend payout ratio

Compute the market price of company quoted shares as per Walter Model if it can earn a return of

- i) 15%
- ii) 10%
- iii) 5% on its retained earnings.

UNIT – V

- 9 a) Define inventory management. Examine the different types of inventories and benefits of inventory management. [7M]
- b) From the following information calculate (i) Re-Order level (ii) Minimum stock level (iii) Maximum stock level and (iv) Average stock level from the following information: [7M]
- a) Maximum consumption 200 units per day.
 - b) Minimum consumption 150 units per day.
 - c) Normal consumption 160 units per day.
 - d) Re-order period 10-15 days.
 - e) Re-order quantity 1,600 units
 - f) Normal Re-Order period 12 days.
- 10 a) What do you understand by working capital? Critically examine the recommendations of Tandon committee on working capital. [7M]
- b) A company is expecting to have Rs.5,000 cash in hand on 1-1-2006 and it request you to prepare cash budget for 4 months i.e; January to April 2006. The following information is supplied to you. [7M]

Months	Sales	Purchases	Wages	Expenses
2005 Nov	30,000	15,000	3,000	1,000
Dec	35,000	20,000	3,200	2,000
2006 Jan	25,000	15,000	2,500	1,500
Feb	30,000	20,000	3,000	1,000
March	35,000	22,500	2,400	1,800
April	40,000	25,000	2,600	1,500

Other information:

- i) The creditors are allowed 2 months credit.
- ii) A dividend of Rs.10,000 is payable in April.
- iii) The creditors allowing a credit period of 2 months.
- iv) Plant purchased for 5,000 on 25th January, 2006.
- v) On 1st March, building purchased in monthly installment of Rs.2,000 each.
- vi) Wages are paid on 1st of next month.
- vii) Lag in the payment of other expenses is 1 month.



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COURSE OBJECTIVES:

The course should enable the students to:

I	Provide support for decision making and to monitor their decisions for any potential financial implications.
II	Learn and implement the financial management strategies for effective utilization of financial resources in optimum manner.
III	Ensure the availability of relevant and reliable financial and non-financial information for the purpose of wealth and profit maximization.
IV	Focus on wealth maximization rather than profit maximization to achieve the objectives of finance function

COURSE OUTCOMES (COs):

CMBB17.01	Describe the meaning, definitions, nature, scope, evolution and goals of financial management.
CMBB17.02	Examine the new role of finance function in contemporary scenario and demonstrate the concepts of risk return trade off, time value, future value and present value of money.
CMBB17.03	Discuss the meaning, definitions, characteristics and importance of investment decisions and capital budgeting principles.
CMBB17.04	Explain the term capital budgeting decision under risk & uncertainty, measurement of cost of capital and methods of capital budgeting techniques.
CMBB17.05	Demonstrate the meaning, definitions, importance and theories of cost of capital and capital structure and different leverages.
CMBB17.06	Enumerate the Break Even Analysis of Financial leverage and NI and NOI theories of capital structure.
CMBB17.07	Understand the dividend decisions, value of the firm and relevance of dividends declaration and payments based on MM hypothesis.
CMBB17.08	Introduce the major theories centered on the works of Gordon and Walter models.
CMBB17.09	Identify the strategies in cash management, receivables management and inventory management.
CMBB17.10	Examine the concept of working capital and committees recommendations on this concept.

MAPPING OF SEMESTER END EXAMINATION - COURSE OUTCOMES

SEE Question No	Course Outcomes	Course Outcomes	Blooms Taxonomy Level
1	a	CMBB17.01 Describe the meaning, definitions, nature, scope, evolution and goals of financial management.	CO 1 Remember
	b	CMBB17.02 Examine the new role of finance function in contemporary scenario and demonstrate the concepts of risk return trade off, time value, future value and present value of money.	CO 2 Understand
2	a	CMBB17.01 Describe the meaning, definitions, nature, scope, evolution and goals of financial management.	CO 1 Apply
	b	CMBB17.02 Examine the new role of finance function in contemporary scenario and demonstrate the concepts of risk return trade off, time value, future value and present value of money.	CO 2 Evaluate

3	a	CMBB17.03	Discuss the meaning, definitions, characteristics and importance of investment decisions and capital budgeting principles.	CO 3	Understand
	b	CMBB17.04	Explain the term capital budgeting decision under risk & uncertainty, measurement of cost of capital and methods of capital budgeting techniques.	CO 4	Apply
4	a	CMBB17.04	Explain the term capital budgeting decision under risk & uncertainty, measurement of cost of capital and methods of capital budgeting techniques.	CO 4	Create
	b	CMBB17.05	Demonstrate the meaning, definitions, importance and theories of cost of capital and capital structure and different leverages.	CO 5	Remember
5	a	CMBB17.05	Demonstrate the meaning, definitions, importance and theories of cost of capital and capital structure and different leverages.	CO 5	Remember
	b	CMBB17.05	Demonstrate the meaning, definitions, importance and theories of cost of capital and capital structure and different leverages.	CO 5	Apply
6	a	CMBB17.07	Understand the dividend decisions, value of the firm and relevance of dividends declaration and payments based on MM hypothesis.	CO 7	Evaluate
	b	CMBB17.06	Enumerate the Break Even Analysis of Financial leverage and NI and NOI theories of capital structure.	CO 6	Understand
7	a	CMBB17.10	Examine the concept of working capital and committees recommendations on this concept.	CO 10	Apply
	b	CMBB17.07	Understand the dividend decisions, value of the firm and relevance of dividends declaration and payments based on MM hypothesis.	CO 7	Evaluate
8	a	CMBB17.07	Understand the dividend decisions, value of the firm and relevance of dividends declaration and payments based on MM hypothesis.	CO 7	Understand
	b	CMBB17.07	Understand the dividend decisions, value of the firm and relevance of dividends declaration and payments based on MM hypothesis.	CO 7	Remember
9	a	CMBB17.09	Identify the strategies in cash management, receivables management and inventory management.	CO 9	Remember
	b	CMBB17.09	Identify the strategies in cash management, receivables management and inventory management.	CO 9	Understand
10	a	CMBB17.10	Examine the concept of working capital and committees recommendations on this concept.	CO 10	Apply
	b	CMBB17.09	Identify the strategies in cash management, receivables management and inventory management.	CO 9	Analyze

Signature of Course Coordinator

HOD, MBA