

MBA.P.II/04.13. 0378

**MBA DEGREE (PT) II SEMESTER EXAMINATION APRIL 2013**

**SMP 2205 FINANCIAL MANAGEMENT**  
(2012 Admission)

Time : 3 Hours

Max. Marks: 50

**PART A**  
(Answer *ALL* questions)

(5 x 2 = 10)

1. What are the objectives of finance function?
2. What is optimal capital structure?
3. What is financial leverage?
4. What are the various kinds of working capital?
5. What is scrip dividend?

**PART B**  
(Answer *ANY FIVE* questions)

(5 x 4 = 20)

6. State the functions of a Finance Manager in a large scale industrial establishment.
7. What is the importance of cost of capital?
8. Calculate the internal rate of return from the following:

Initial outlay	:	₹ 5,00,00,000
Life of the Asset	:	10 years
Estimated annual cashflow	:	₹ 1,25,00,000

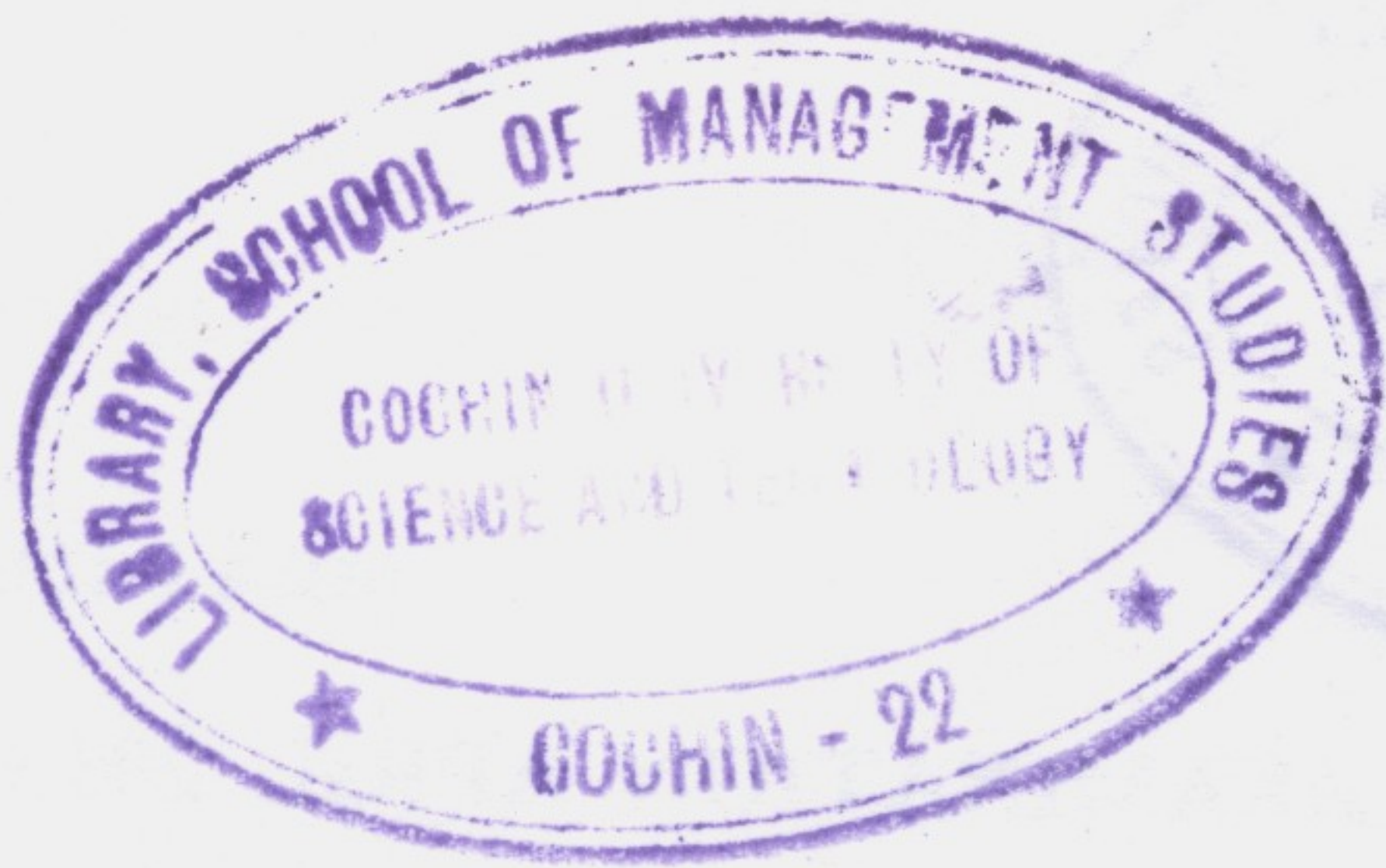
9. A company issues 1,00,000 7% preference shares of ₹ 100 each at a premium of 10% redeemable after 5 years at par. Compute the cost of preference capital.
10. A company has earnings before interest and taxes of ₹ 1,00,00,000 /-. It expects a return on its investment at the rate of 12.5%. Find out the total value of the firm according to the MM theory.
11. Calculate the operating leverage for the following:

Installed capacity	1,000 units
Operating capacity	800 units
Selling price per unit	₹ 10/-
Variable cost per unit	₹ 7/-
Fixed cost	₹ 800/-

12. Bring out the importance of working capital for a manufacturing concern.

(P.T.O)



**PART C**(Answer *ANY TWO* questions)

(2 x 10 = 20)

13. Give a critical appraisal of the traditional approach and the M-M approach to the problem of capital structure.
14. Rank the following projects in the order of their desirability according to the pay-back period method and the next present value index method (discount rate 10%).

Project	Initial outlay (₹)	Annual cash flow (₹)	Life in years
A	1,00,000	25,000	5
B	80,000	26,000	7
C	40,000	10,000	15
D	1,00,000	24,000	20
E	50,000	11,250	15
F	60,000	24,000	6
G	20,000	10,000	2

15. The following information is available in respect of a firm.

Capitalisation rate = 10%

Earnings per share = ₹ 50/-

Assumed rate of return on investments. (i) 12% (ii) 8% (iii) 10%.

Show the effect of dividend policy on market price of shares applying Watter's formula when dividend pay out ratio is (i) 0% (ii) 20% (iii) 40% (iv) 80% (v) 100%.

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