MBA.II.P/04.13.0379

MBA DEGREE (PT) II SEMESTER EXAMINATION APRIL 2013

SMP 2203 FINANCIAL MANAGEMENT

(2009,2010 and 2011 Admissions)

Time: 3 Hours

Maximum Marks: 50

(5 ×10 = 50)

I. A. Describe the concept of wealth maximization and how financial management can help it.

OR

B. What is financial analysis? What are the tools for it and how is financial analysis useful for financial decisions? Explain it with examples.

II. A. Define and distinguish between operating leverage and financial leverage with an example. Also explain the combined leverage.

OR

B. From the following prepare balance sheet of ABC Ltd.

Stock turnover ratio 6 Gross profit ₹60,000

Capital turnover ratio 2 Fixed assets turnover ratio 4

Gross profit ratio 20% Debt collection period 2 months

Creditors payment period (days) 73

Closing stock was ₹5000 more than the opening stock.

Note: All sales are on credit basis.

III. A. From the following details of a company, compute weighted average cost of capital based on (i) book value weights and (ii) market value weights.

Type of capital	Book value	Market Value	Specific cost (%)
Debt	10,00,000	10,20,000	11
Preference	5,00,000	5,50,000	14
Equity	10,00,000	30,00,000	15
Retained earnings	5,00,000		12

OR

B. What is weighted average cost of capital? How do you calculate it? Explain it with an example.

IV. A. What is capital structure? Recommend an ideal capital structure for a company in telecommunications industry in India. Justify your recommendation with a numerical analysis of its benefits.

OR

B. A company is considering replacement of an old and fully depreciated machine with a new machine costing ₹5,00,000 which will be fully depreciated over its life span of 8 years. The new machine will save labour cost of ₹1,00,000 annually. There will not be any increase in any other cost of operations. The company pays tax @30% and has a target rate of return (after tax) of 10%. Current cost of operations is as follows:

Material cost	15,00,000	
Labour cost	20,00,000	
Overhead cost	400,000	
Depreciation	400,000	
Total cost		43,00,000
Sales		50,00,000

Should the company buy the new machine?

V. A. "Inventory management is an area for effective cost control and reduction which is often ignored by managers". Explain the major tools for inventory management and critically analyse the statement.

OR

B. Describe the various instruments of short-term finance and their relative merits and demerits.

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