MBA.F.II/11. 221

MBA DEGREE (F.T) II SEMESTER EXAMINATION, APRIL 2011

SMS 2204 FINANCIAL MANAGEMENT

Time : 3 Hours

Max. Marks: 50

(All questions carry ***EQUAL*** marks)

(5 x 10 = 50)

I. A. In what ways is the wealth maximization objective superior to the profit maximization objective? Explain.

OR

B. Assume that a firm has owners' equity of Rs.100,000/-. The ratios of the firm are:

Current debt to total debt	:	0.40
Total debt to owners' equity	:	0.60
Fixed assets to owners' equity	:	0.60
Total assets turnover	:	2 times
Inventory turnover	:	8 times

Complete the following balance sheet, given the information above

Liabilities	Rs.	Assets	Rs.
Current Debt	-	Cash	-
Long – Term debt	-	Inventory	-
Total debt	-	Total Current Assets	-
Owners' equity	-	Fixed Assets	-
Total Capital	-	Total Assets	-

II. A. "The financial information required for CVP analysis is for internal use and is usually available only to managers inside the firm". Illustrate.

OR

B. What is the degree of combined leverage? What do you think is the appropriate combination of operating and financial leverage?

III. A. Why is the consideration of time important in financial decision-making? How can time value be adjusted? Illustrate your answer.

OR

B. Suppose the risk-free rate is 8 percent, the market risk premium is 9 percent and the tax rate is 30 percent. A firm has the following market values and beta based on the market data and the company's own analysis for various sources of financing:

Source of Capital	Market Value (Rs. in crore)	Beta
Ordinary share Capital	500	1.45
Debentures	400	0.3
Public Deposits	100	0.15

You are required to calculate (i) the required rate of return for each source of finance
(ii) the weighted average cost of capital
(iii) the asset beta
(iv) the opportunity cost of capital on the firm's assets

(P.T.O)

IV. A. Ratan Co. is thinking of buying equipment for Rs.400,000/-. The equipment is expected to produce each year 10,000 units, 15,000 units, 20,000 units and 8,000 units of product X over its estimated life of four years. The price per unit is Rs.30/-, which is expected to increase by 5 percent per year after the first year. The cost of production per unit in first year is Rs.20/- and is likely to increase by 10 percent each year. The general rate of inflation is 8 percent. The company tax rate is 50 percent. Assume that depreciation can be charged on the straight-line basis for computing taxes. Should the equipment be bought?

OR

B. What is the CAPM approach for calculating the cost of equity? What is the difference between this approach and the constant growth approach? Which one is better? Why?

V. A. What is the concept of working capital cycle? What is meant by cash conversion cycle? Why are these concepts important in working capital management? Give an example to illustrate.

OR

B. Explain the techniques that can be used to accelerate the firm's collections.

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