



MBA.IB.II./04.13.0389

**MBA DEGREE (INTERNATIONAL BUSINESS) II SEMESTER EXAMINATION
APRIL 2013**

**SMI 2202 FINANCIAL MANAGEMENT
(2009 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.

