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**M.B.A. (FT)/M.B.A. (IB)/M.B.A. (TT)/M.B.A. (PT) DEGREE II SEMESTER
EXAMINATION MAY 2015**

SMS 2201/SMI 2201/SMT 2201/SMP 2205 FINANCIAL MANAGEMENT

(Regular and Supplementary)

Time: 3 Hours

Maximum Marks: 50

PART A

(Answer **ALL** questions)

(5 × 2 = 10)

1. What do you understand by internal financing?
2. Clarify the concept of Net Income Approach.
3. How will you define time value of money?
4. How is NPV different from IRR?
5. Differentiate capital structure from total capital.

PART B

(Answer **ANY FIVE** questions)

(5 × 4 = 20)

6. Discuss the uses of leverage in business decisions stating the different types of leverages.
7. Examine the concept of cost of capital stating computation of the different components of cost of capital.
8. Discuss the functions of financial management from the point of view of a large manufacturing company.
9. State the different approaches to working capital with reference to the interdependence of each components of working capital.
10. A firm has sales of ₹75,00,000/- variable costs of ₹42,00,000/- and fixed cost of ₹6,00,000/-. It has a debt of ₹45,00,000/- at 9% and an equity of ₹55,00,000/-.
 - (i) What is the firm's ROI?
 - (ii) Does it have favourable financial leverage?
 - (iii) If the firm belongs to an industry whose asset turnover is 3, does it have high or low asset leverage?
 - (iv) What are the operating, financial and combined leverages of the firm?
 - (v) If the sales drop to ₹50,00,000/- what will be new EBIT?

(P.T.O.)

11. Determine the average rate of return from the following data of two machines A and B.

Details	Machine A	Machine B
Original cost	₹56,125	₹56,125
Additional investment in net working capital	₹5,000	₹6,000
Estimated life in years	5	5
Estimated salvage value	₹3,000	₹3,000
Average income tax rate	55%	55%
Annual estimated income after depreciation and tax:		
1 st year	3,375	11,375
2 nd year	5,375	9,375
3 rd year	7,375	7,375
4 th year	9,375	5,375
5 th year	11,375	3,375
	36,875	36,875

Depreciation has been charged on straight-line basis.

12. Debate on dividend policy with reference to relevance and irrelevance theories of dividend decisions.

PART C

(Answer *ANY TWO* questions)

(2 × 10 = 20)

13. Discuss the role and functions of Finance Manager in the light of the objectives of financial management.
14. A company has to select one of the following two projects:

Details	Project A	Project B
Cost of the project	₹11,000	₹10,000
Cash inflows: in ₹		
Year 1	6,000	1,000
Year 2	2,000	1,000
Year 3	1,000	2,000
Year 4	5,000	10,000

Using the IRR method suggests which project is preferable.

(Contd...3)

15. The management of Royal Industries has called for a statement showing the working capital to finance a level of activity of 1,80,000 units of output for the year. The cost structure for the company's product for the above mentioned activity level is detailed below:

	<u>Cost per unit in ₹</u>
Raw material	20
Direct labour	5
Overheads (including depreciation of ₹5 per unit)	15

	40
Profit	10

Selling price	50

Additional information:

Minimum desired cash balance is ₹20,000

Raw material is held in stock, on an average for two months

Work in progress (assume 50% completion stage) will approximate to half a month's production.

Finished goods remain in warehouse, on an average, for a month.

Suppliers of materials extend a month's credit and debtors are provided two months credit; cash sales are 25% of total sales.

There is a time lag in payment of wages of a month; and half-a month in the case of overheads.

From the above facts, you are required to prepare a statement showing working capital requirements.
