

TT-II



MBA.II/05.16.0391

Reg. No.

**MBA(FT) / MBA (IB) / MBA (TT) / MBA (PT) DEGREE II SEMESTER EXAMINATION  
MAY 2016**

**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. Explain the objective of financial management.
2. Explain the meaning of optimum capital structure.
3. What do you mean by script dividend?
4. What do you mean by duration of a bond?
5. What do you mean by watered capital?

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

(5 × 4 = 20)

6. Explain the methods used for evaluating the capital investment projects.
7. A ₹100/- perpetual bond is currently selling for ₹98/-. The coupon rate of interest is 13.5% and the required rate of return is 15%. Calculate the value of the bond. Should it be purchased?
8. Two firms A and B have the following information.

Firm	Sales (₹ in lakhs)	Variable cost (₹ in lakhs)	Fixed cost (₹ in lakhs)
A	1800	450	950
B	1500	750	375

Calculate the breakeven point and degree of operating leverage.

9. How do you resolve conflicting results given by NPV method and IRR method for a project being evaluated?
10. A firm's estimated demand for a material during the next year is 2500 units. Acquisition cost is ₹400/- per order and carrying cost is ₹50 per unit. Safety stock is set at 25% of the EOQ. The daily usage is 10 units and lead time is 10 days. Determine the economic order quantity.
11. Explain the Baumol model of cash management.
12. Discuss the factors affecting the dividend decision.

(P.T.O.)

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

(2 × 10 = 20)

13. The earnings per share of a company are ₹10/-. It has an internal rate of return of 15% and the capitalization rate of the same risk class is 12.5%. If Walter's model is used what should be the optimum payout ratio of the firm? What should be the price of the share at this payout ratio?
14. A company is thinking of replacing an old machine. The machine was brought 4 years ago for ₹100000/-. It is expected to last for 3 more years and to produce an annual net cash inflow of ₹60,000/-. The new alternative machine will cost ₹150,000/- and provide net cash flows of ₹90,000/-, ₹90,000/-, ₹80,000/-, ₹80,000/-, ₹70,000/- from year one through year five. There is no salvage value for the machine. The cost of capital is 12%. Should the old machine be replaced? If so when?
15. "The MM theory of capital structure is based on unrealistic assumptions". Discuss the statement.

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