

Reg. No.

MBA DEGREE (FT/PT) II Semester End Semester Examination: June, 2022
21-371-0201/21-372-0201: FINANCIAL MANAGEMENT
(Regular)

Time: 3 Hours

Max. Marks: 50

Course Outcomes

CO1	Ability to recall the basic concepts and terms related to Financial Management, Sources of Funds, Cost of Capital, Capital Structure, Leverage, Capital Budgeting, Working Capital and Dividend Policy.
CO2	Enable the incumbents to understand comprehensively the concepts delivered at the remembrance level to make them cognitively fit for application.
CO3	Develop application skills in finance based on the understanding of the different contents delivered to apply them with illustrations and cases.
CO4	Impart skills to analyse the real financial data to explore and establish relationships in the areas of financial decisions.
CO5	Make the students capable to evaluate the impact of cost of capital on capital structure decisions, and appraise investment proposals using capital budgeting techniques.
CO6	Generate new ideas and create financial plans and proposals for business expansion and developments.

BL – Bloom’s Taxonomy: (L1- Remember, L2 - Understand, L3 - Apply, L4 - Analyse, L5-Evaluate, L6 - Create)

PART A

(Answer ALL questions. Each question carries 2 marks)

Q. No.	Questions	Marks	BL	CO
1	Define ‘Financial Management’.	2	1	2
2	Define ‘IRR’.	2	1	3
3	Explain the term ‘time value of money’.	2	2	3
4	You are given the following facts about a firm: Risk-free rate of return is 11%, Beta co-efficient, β_i , of the firm is 1.25. Compute the cost of equity capital using CAPM assuming a market return of 15%.	2	3	5
5	Compare dividend pay-out ratio, retention ratio and dividend yield.	2	4	4

(5 x 2 = 10 marks)

PART B

(Answer ANY FIVE Questions. Each question carries 4 marks.)

Q. No.	Questions	Marks	BL	CO
6 (a)	Explain the concept of 'wealth' in the context of wealth maximization objective.	2	2	3
(b)	Evaluate the wealth maximization objective as a better goal than maximizing profits.	2	2	4
7	Explain the significance of cost of capital in financial decision making.	4	2	5
8	A company is considering a project proposal as a part of expansion, involving an initial cash outlay of Rs. 20,00,000. The project generates cash inflows of Rs. 8,00,000; Rs. 7,00,000; Rs. 4,00,000; Rs. 3,00,000 and Rs. 2,00,000 during the next five years. You are required to suggest, whether the project proposal should be accepted if the standard pay-back period is 3 years.	4	5	5
9	A company offers for public subscription equity shares of Rs. 100 each at a premium of 10%. The company pays 5% of the issue price as underwriting commission. The rate of dividend expected by the equity shareholders is 25%. The above information is placed before you to suggest about the cost of equity capital of the company taking into account the issue price of the shares and also the current market price which is Rs. 140.	4	4	5
10	Explain the key factors that a finance manager should consider before issuing equity shares as a source of long-term funds for a company.	4	3	5
11	The EPS of a company is Rs. 8 and the equity capitalisation rate to the company is 10%. The company has before it an option of adopting a pay-out ratio of 25% or 50%. Using Walter's model of dividend pay-out, compute the market value of the company's share if the internal rate of return is (i) 15%, (ii) 10% and (iii) 5%.	4	3	4
12	A firm has sales of Rs. 25,00,000, variable cost of Rs. 15,00,000 and fixed costs of Rs. 5,00,000 and 10% Debentures of Rs. 10,00,000. Calculate the operating, financial and combined leverages.	4	3	4

(5 x 4 = 20 marks)

PART C

(Answer ANY TWO questions, Each question carries 10 marks)

Q. No.	Questions	Marks	BI.	CO																																	
13	Evaluate the Net Income and Net Operating Income approaches to capital structure, as well as their impact on firm value.	10	5	5																																	
14 (a)	State the assumptions which underlie Gordon's model of dividend effect.	4	1	5																																	
(b)	Explain, using examples, whether dividend policy affects firm value under Gordon's model.	6	4	5																																	
15	<p>The Kerala Electronics Corporation Ltd. is considering the purchase of a new machine. There are two models available in the market namely MX and MY, each costing Rs. 5,00,000/-. The expected profits after tax are given below.</p> <table border="1"> <thead> <tr> <th>Year</th> <th>Machine MX</th> <th>Machine MY</th> </tr> <tr> <td></td> <td>Rs.</td> <td>Rs.</td> </tr> </thead> <tbody> <tr> <td>1</td> <td>1,50,000</td> <td>50,000</td> </tr> <tr> <td>2</td> <td>2,00,000</td> <td>1,50,000</td> </tr> <tr> <td>3</td> <td>3,00,000</td> <td>2,50,000</td> </tr> <tr> <td>4</td> <td>1,50,000</td> <td>3,50,000</td> </tr> <tr> <td>5</td> <td>1,00,000</td> <td>2,50,000</td> </tr> </tbody> </table> <p>Assume the cost of capital of the company is 10%. You are required to evaluate the two machines and suggest which Machine should be purchased by the company and also give reasons in support of your suggestion.</p> <p>P. V. Factor at 10%</p> <table border="1"> <thead> <tr> <th>Year</th> <th>1</th> <th>2</th> <th>3</th> <th>4</th> <th>5</th> </tr> </thead> <tbody> <tr> <td>P. V. Factor</td> <td>0.909</td> <td>0.826</td> <td>0.751</td> <td>0.683</td> <td>0.621</td> </tr> </tbody> </table>	Year	Machine MX	Machine MY		Rs.	Rs.	1	1,50,000	50,000	2	2,00,000	1,50,000	3	3,00,000	2,50,000	4	1,50,000	3,50,000	5	1,00,000	2,50,000	Year	1	2	3	4	5	P. V. Factor	0.909	0.826	0.751	0.683	0.621	10	4	5
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(2 x 10 = 20 marks)

L1 - 11.76%; L2 - 14.71%; L3 - 20.59%; L4 - 32.35%; L5 - 20.59%; L6 - 0%
