Printed Pages: 03 | Sub Code: RMB 204/RMT204

Paper Id: 270222 | Roll No. | | | | | | | | | | |

**MBA**

**(SEM-II) THEORY EXAMINATION 2018-19**

**FINANCIAL MANAGEMENT**

***Time: 3 Hours*** | ***Total Marks: 70***

**Note: 1.** Attempt all Sections. If require any missing data; then choose suitably.

**SECTION A**

**1. Attempt *all* questions in brief.** **2 x 7 = 14**

a. Define Financial Management.
b. Compare operating risk and financial risk?
c. What are the components of capital budgeting?
d. How would you categorize the term leverage?
e. Define 'Commercial paper'?
f. What do you mean by future value of money?
g. Define Hire purchase.

**SECTION B**

**2. Attempt any *three* of the following:** **7 x 3 = 21**

a. Explain the importance of financial management in the present day business world.
b. Why share holder's wealth maximization /value maximization is considered as better objective of financial management instead of profit maximization?
c. Explain in brief important factors which help in estimating requirements of working capital in a organization. Also explain effects of adequate, inadequate and excess working capital.
d. What do you understand by the term "Project financing".
e. If X has a sum of ₹ 1000 to be invested, and there are two schemes, one offering a rate of interest of 10%, compounded annually, and other offering a simple rate of interest of 10%, which one should he opt for assuming that he will withdraw the amount at the end of (a) 1 Year (b) 2 Year, and (c) 5 Years?

**SECTION C**

**3. Attempt any *one* part of the following:** **7 x 1 = 7**

(a) What is "Optimum capital structure"? Explain.
(b) ABC ltd is considering the purchase of a new leather cutting machine to replace an existing machine which has a book value of ₹ 3000 and can be sold for ₹ 1500. The estimated salvage value of the old machine in four years would be zero, and it is depreciated on a straight line basis. The new machine will reduce costs (before tax) by ₹ 7000 per year i.e. ₹ 7000 cost savings over the old machine. The new machine has a four year life, costs ₹ 14000 and can be sold for an expected amount of ₹ 2000 at the end of the fourth year. Assuming straight line depreciation and a tax rate of 40%, calculate the cash flows associated with the investment and calculate the NPV of the project assuming the cost of funds to the firm is 12% and straight line method is used for tax purposes?

**4. Attempt any *one* part of the following:** **7 x 1 = 7**

www.aktuonline.com



http://www.aktuonline.com

(a) Explain the future value of multiple fiows. What is effective rate of interest?

(b) Calculate operating leverage and state the implication.

Company A

| **Units produced & sold** | **Sales** | **Total Operating Cost** | **EBIT** |
|---|---|---|---|
| Q | PQ | | ₹ |
| 10000 | 100000 | 160000 | (60000) |
| 20000 | 200000 | 230000 | (30000) |
| 30000 | 300000 | 300000 | 0 |
| 40000 | 400000 | 370000 | 30000 |
| 50000 | 500000 | 440000 | 60000 |
| 60000 | 600000 | 510000 | 90000 |
| 70000 | 700000 | 580000 | 120000 |
| 80000 | 800000 | 650000 | 150000 |
| Unit selling price = 10 | | | |
| Operating Fixed Cost (F) = ₹ 90000 | | | |
| Per Unit Variable Cost = 7 | | | |
| EBIT BEP = 30000 Units | | | |

**Company B**

| **Units produced & sold** | **Sales** | **Total Operating Cost** | **EBIT** |
|---|---|---|---|
| Q | PQ | | ₹ |
| 10000 | 100000 | 240000 | (140000) |
| 20000 | 200000 | 290000 | (90000) |
| 30000 | 300000 | 340000 | (40000) |
| 40000 | 400000 | 390000 | 10000 |
| 50000 | 500000 | 440000 | 60000 |
| 60000 | 600000 | 490000 | 110000 |
| 70000 | 700000 | 540000 | 160000 |
| 80000 | 800000 | 590000 | 210000 |
| Unit selling price = 10 | | | |
| Operating Fixed Cost (F) = ₹190000 | | | |
| Per Unit Variable Cost = 5 | | | |
| EBIT BEP = 38000 Units | | | |

**5. Attempt any *one* part of the following: 7 x 1 = 7**

(a) What do you mean by funds from operations? How will you calculate finds from operations for the purpose of preparing funds fiow statements?

www.aktuonline.com



http://www.aktuonline.com

(b) From the following data, compute the duration of operating cycle for each of the two years and comment on the increase/decrease:
(Assume 350 Days per year for computational purposes)

| Stock | Year 1 | Year 2 |
|---|---|---|
| Raw materials | 20,000 | 27,000 |
| Work-in-progress | 14,000 | 18,000 |
| Finished goods | 21,000 | 24,000 |
| Purchases | 96,000 | 1,35,000 |
| Cost of goods sold | 1,40,000 | 1,80,000 |
| Sales | 1,60,000 | 2,00,000 |
| Debtors | 32,000 | 50,000 |
| Creditors | 16,000 | 18,000 |

**6. Attempt any *one* part of the following: 7 x 1 = 7**

(a) Discuss the concept of Risk. Explain Diversifiable and Non-Diversifiable Risk. What are the various source of risk?

(b) Kumar company has sales of ₹25, 00,000. Variable cost of ₹12, 50,000 and fixed cost of ₹50,000 and debt of ₹12, 50,000 at 8% rate of interest. Calculate combined leverage.

**7. Attempt any *one* part of the following: 7 x 1 = 7**

(a) What are the various factors affecting Dividend Policy? Also define forms of Dividends. Write down types of Dividend Policies.

(b) The following information is available in respect of a firm:
Capitalization Rate (ke) = 0.10
Earnings per share (E) = ₹10
Assumed rate of return on investments (r): 15
Calculate the effect of dividend policy on the market price of shares, using Walter's model.

www.aktuonline.com



http://www.aktuonline.com