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II Semester M.B.A. Degree Examination, December 2022
(CBCS) (2018-19 Scheme)
MANAGEMENT
Paper – 2.5 : Financial Management

Time : 3 Hours | Max. Marks : 70

SECTION – A

Answer **any five** questions, **each** carries **5** marks. (5×5=25)

1. Explain the different types of decisions taken by Financial Managers.

2. Why Dividend Policy is important for a Company ?

3. A company has Rs. 2,00,000 6% Debentures outstanding today. The company has to redeem the debentures after 5 years and establishes a Sinking Fund to provide funds for redemption. Sinking Fund Investments earn interest @ 10% p.a. The investments are made at the end of each year. What annual payment must the firm make to ensure that the needed Rs. 2,00,000 is available on the designated date ?

4. When can there arise a conflict between shareholder's and manager's goals ? How can it be resolved ?

5. Differentiate Profit Maximization and Wealth Maximization objectives of a firm.

6. Assuming that a firm pays tax @ 40%. Compute the after- tax cost of capital in the following cases.
   - A bond sold at Rs. 100 with 7% interest rate and redemption value Rs. 110, if the company redeems it in 5 years.
   - An ordinary share selling at a current market price of Rs.120 and paying a current dividend of Rs. 9 per share, which is expected to grow at a rate of 8%.

7. Calculate EOQ from the following information.
   Annual usage 20000 units
   Cost of placing and receiving one order
   Cost of materials per unit Rs.50
   Annual carrying cost of one unit -10% of inventory value.

P.T.O.

SECTION – B

Answer **any three** questions, **each** carries **10** marks. **(10×3=30)**

8. Explain the different sources of financing working capital needs of an organization.

9. Aarav Ltd. has currently an Ordinary Share Capital of Rs. 25 lakhs consisting of 25000 shares of Rs. 100 each. The management is planning to raise another Rs.20 lakhs to finance an expansion program through one of the possible financing plans. The options are :
   - Entirely through ordinary shares
   - Rs. 10 lakhs through ordinary shares and Rs. 10 lakhs through 8% debentures.
   - Rs. 5 lakhs through ordinary shares and Rs. 15 lakhs through 9% debentures
   - Rs. 10 lakhs through ordinary shares and Rs. 10 lakhs through 5% preference shares.

   The Company's expected EBIT will be Rs. 8 lakhs. Assuming a tax rate of 50 percentage.

   Determine the EPS in each alternative and comment on the implications of financial leverage.

10. Compare and contrast the different Capital Budgeting Techniques.

11. A company has the following amounts and the specific cost in its books'.

Type of Capital	Book Value (Rs.)	Market Value (Rs.)	Specific Cost (%)
Debentures	4,00,000	3,80,000	5
Preference Shares	1,00,000	1,10,000	8
Equity Shares	6,00,000	12,00,000	15
Retained Earnings	2,00,000	–	13
Total	**13,00,000**	**16,90,000**	

Determine the weighted Average Cost of Capital using :

1) Book value weights
2) Market Value weights.

SECTION – C

Compulsory question : **(15×1=15)**

12. Case study :

Anand Ltd. is considering investing in a project that costs Rs. 10,00,000. The estimated salvage value is zero and the tax rate is 35%. The company uses straight line method of depreciation and the proposed project has the following Cash Flows Before Tax (CFBT).

Years	1	2	3	4	5
CFBT (Rs.)	2,00,000	3,00,000	4,50,000	4,50,000	6,50,000

You are required to evaluate the Project based on :

- Pay-back Period
- Average Rate of Return
- NPV at 14% required rate of return
- PI at 14% required rate of return and
- IRR

Suggest the company whether it should accept this project or not. Substantiate your answer if the required PBP is 3 years and the minimum rate of return is 15% .