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Name.....

Reg. No.....

**SECOND SEMESTER M.B.A. DEGREE EXAMINATION, APRIL 2014**

**BUS 2C 12—FINANCIAL MANAGEMENT**

(2013 Admission onwards)

Time : Three Hours

Maximum Weightge : 36

**Part A**

*Answer the following.  
Each question carries 1 weightage.*

1. What is Economic Value Added? ✓
2. What are the sources of long term financing?
3. What is weighted average cost of capital?
4. What is gross working capital?
5. Write a note on under capitalisation.
6. What is financial engineering? ✓



**Part B**

*Answer any six of the following.  
Each question carries 3 weightage.*

(6 × 1 = 6 weightage)

7. Write a note on the functions of a finance manager in a service industry. ✓
8. Explain MM Theory and its limitations.
9. Discuss the factors that influence working capital of an organization.
10. The Big Oil Company's treasurer explained his company's dividend policy (a low dividend compared to earnings) by stating that "the stockholders did nothing to earn the money." And that "if the stockholders did not like the present policy, they could sell the stock." Discuss the statements.
11. Given the cash flows of the four projects, A, B, C, and D, and using the Payback Period decision model, which projects do you accept and which projects do you reject with a three year cut-off period for recapturing the initial cash outflow? Assume that the cash flows are equally distributed over the year for Payback Period calculations :

Turn over

<i>Projects</i>	A	B	C	D
	<i>Rs.</i>	<i>Rs.</i>	<i>Rs.</i>	<i>Rs.</i>
<i>Cost</i> ...	10,000	25,000	45,000	1,00,000
<i>Cash Flow Year One</i> ...	4,000	2,000	10,000	40,000
<i>Cash Flow Year Two</i> ...	4,000	8,000	15,000	30,000
<i>Cash Flow Year Three</i> ...	4,000	14,000	20,000	20,000
<i>Cash Flow Year Four</i> ...	4,000	20,000	20,000	10,000
<i>Cash Flow year Five</i> ...	4,000	26,000	15,000	0
<i>Cash Flow Year Six</i> ...	4,000	32,000	10,000	0

12. The Fox Company has common stock outstanding that has a current price of Rs. 20 per share and a Re. 0.5 dividend. Fox's dividends are expected to grow at a rate of 3 % per year, forever. The expected risk-free rate of interest is 2.5 %, whereas the expected market premium is 5%. The beta on Fox's stock is 1.2. What is the cost of equity for Fox using the dividend valuation model? What is the cost of equity for Fox using the capital asset pricing model?
13. Enumerate the recommendations of Tandan committee.
14. Explain Walter's model.

(6 × 3 = 18 weightage)

### Part C

*Answer any two of the following.  
Each question carries 6 weightage*

15. "Successful implementation of a financial statement projection, whether manual or computerised, requires a careful analysis of the interrelations among the various accounts, for example, between sales and accounts receivable, and an understanding of how they might be affected by company policies, such as credit terms and economic conditions." Discuss.
16. A newly formed company has applied to the Commercial Bank for the first time for financing its working capital requirements. The following information is available about the projections for the current year:

	<i>Per unit</i>
	<i>Rs.</i>
<i>Elements of cost :</i>	
<i>Raw material</i> ...	40
<i>Direct labour</i> ...	15
<i>Overhead</i> ...	30
<i>Total cost</i> ...	85
<i>Profit</i> ...	15
<i>Sales</i> ...	100

Other information :

Raw material in stock : average 4 weeks consumption, Work-in progress (completion stage, 50 per cent), on an average half a month. Finished goods in stock : on an average, one month. Credit allowed by suppliers is one month.

Credit allowed to debtors is two months.

Average time lag in payment of wages is 1 ½ weeks and 4 weeks in overhead expenses. Cash in hand and at bank is desired to be maintained at Rs. 50,000.

All Sales are on credit basis only.

Prepare statement showing estimate of working capital needed to finance an activity level of 96,000 units of production. Assume that production is carried on evenly throughout the year, and wages and overhead accrue similarly. For the calculation purpose 4 weeks may be taken as equivalent to a month and 52 weeks in a year.

17. Calculate the NPV for project with the following cash flows: an initial outlay of Rs. 35,400 followed by inflows of Rs. 6,500 for three years and then a single inflow in the fourth year of Rs. 18,000 at a cost of capital of 9%. (Recognize the first three inflows as an annuity in your calculations.)

(2 × 6 = 12 weightage)