

SECOND SEMESTER M.B.A. DEGREE EXAMINATION, MAY/JUNE 2019

(CUCSS)

M.B.A.

BUS 2C 12—FINANCIAL MANAGEMENT

(2013 Admissions)

Time : Three Hours

Maximum : 36 Weightage

Part A

*Answer all questions.**Each question carries 1 weightage.*

1. Define profit maximisation.
2. What is economic value addition ?
3. What do you mean by payback period ?
4. What is indifferent point ?
5. What is safety stock ?
6. What do you mean by birds-in-hand argument ?

(6 × 1 = 6 weightage)

Part B

*Answer any six questions.**Each question carries 3 weightage.*

7. Describe the functions of financial management.
8. Explain different discounted cash flow criteria of capital budgeting.
9. Discuss the factors determining dividend policy of a firm.
10. Explain the dangers of excessive working capital.
11. Describe the significance of cost of capital.
12. Explain the need for corporate governance for a firm.
13. A company has an expected usage of 60,000 units of a product during the next year. The cost of processing an order is Rs. 25 and the carrying cost per unit is Rs. 1 for one year. Lead time on an order is five days and the company will keep a reserve supply of two days' usage. You are required to calculate, (a) the economic order quantity and the reorder point (assume 300 days year).

Turn over

14. A company has a net operating income of Rs. 2,00,000 on an investment of Rs. 10,00,000 in assets. It can raise debt at a 16 percent rate of interest. Assume that taxes do not exist. Using the NOI approach and an overall cost of capitalisation rate of 12 percent, compute the total value of the firm and the cost of equity if the firm has no debt, Rs. 3,00,000 debt and Rs. 6,00,000 debt.

(6 × 3 = 18 weightage)

Part C

Answer any two questions.

Each question carries 6 weightage.

15. ABC Ltd. sells goods on a gross profit of 25%. Depreciation is considered as a part of cost of production. The following are the annual figures given to you :

Sales (2 months credit) Rs. 18,00,000

Materials consumed (1 months credit) 4,50,000

Wages paid (1 month lag in payment) 3,60,000

Cash manufacturing expenses (1 month lag in payment) 4,80,000

Administrative expenses (1 month lag in payment) 1,20,000

Sales promotion expenses (paid quarterly in advance) 60,000

The company keeps one month's stock each of raw materials and finished goods. It also keeps Rs. 1,00,000 in cash. You are required to estimate the working capital requirements of the company on cash cost basis, assuming 15% safety margin.

16. Explain the implications of dividend policy on share price, according to Walter's model, for growth, normal and growing firms with the following information :

Cost of equity : 10 percent

Return on investment's : 12 %, 10 % and 8 %

EPS Rs. 10

17. Equipment A has a cost of Rs. 75,000 and net cash flow of Rs. 20,000 per year, six years. A substitute equipment B would cost Rs. 50,000 and generate a net cash flow of Rs. 40,000 per year for six years. The required rate of return of both equipment is 11 percent. Calculate the IRR and NPV for the equipment's. Which equipment should be accepted and why ?

(2 × 6 = 12 weightage)