PART C — (1 × 20 = 20 marks)

(Compulsory)

17. An investment of Rs. 10,000 (having scrap value of Rs. 500) yields the following returns :

Year	1	2	3	4	5
Cash flow after tax (CFAT) (in Rs.)	4,000	4,000	3,000	3,000	2,500

The cost of capital is 10%. Is the investment desirable?

Discuss it according to Net Present Value (NPV) Method assuming the PV factors for 1^{st}, 2^{nd}, 3^{rd}, 4^{th} and 5^{th} year – 0.909, 0.826, 0.751, 0.683 and 0.620 respectively.

MBAC 2001

M.B.A. DEGREE EXAMINATION, JUNE 2014.

Second Semester

General, Finance, Marketing, HRM, IB, RM, Tourism OSCM, IM, HM

FINANCIAL MANAGEMENT

(2012–2013 Batch onwards)

Time : Three hours Maximum : 100 marks

PART A — (5 × 6 = 30 marks)

Answer any FIVE questions.

1. Define Financial Management. Explain its basic objectives.

2. What is cost of capital? Explain the significance of cost of capital.

3. Explain the merits of NPV method.

4. What do you mean by Leverage? Explain its types.

5. Explain any five features of an optimum capital structure.

6. What are the different forms of dividends?

7. Compute payback period for the project from the following: A project has an initial investment of Rs. 2,00,000. It will produce cash flows after tax of Rs. 50,000 per annum for six years.

8. Estimate working capital requirements of M/s. Rose Ltd. from the following particulars :

   Projected annual sales Rs. 9,00,000

   Percentage of net profit to cost of sales is 20%

   Average credit allowed to debtors - 1 month

   Average credit allowed by creditors - 2 months

   Average stock carrying (in terms of sales requirements) - $2\frac{1}{2}$ months

   Add 10% to allow for contingencies.

PART B — (5 × 10 = 50 marks)

Answer any FIVE questions.

9. Explain the functions of financial management.

10. Discuss the various sources of working capital.

11. Describe the factors determining capital structure.

12. Explain the assumptions and criticisms of Walter's model of dividend policy.

13. Explain any two important theories of capital structure.

14. Compute ARR from the following data :

    Cost of asset Rs. 4,00,000, Useful life: 5 years and Cash flow after tax Rs. 1,72,000 per annum.

15. M/S. Deva Ltd. has an EBIT of Rs. 4,50,000. The cost of debt is 10% and the outstanding debt is Rs. 12,00,000. The overall capitalisation rate (k_0) is 15%. Calculate the total value of the firm and equity capitalisation rate under Net Operating Income (NOI) approach.

16. From the following estimates, calculate the average amount of working capital required :

    (a) Average amount locked up in stocks:

    Stock of finished goods - Rs. 10,000

    Stock of stores and materials - Rs. 8,000

    (b) Average credit given:

    Local sales - 2 weeks credit - Rs. 1,04,000

    Export sales - 6 weeks credit - Rs. 3,12,000

    (c) Time available for payment:

    For purchases - 4 weeks - Rs. 78,000

    For wages - 2 weeks - Rs. 2.60,000

    Add 10% to allow contingencies.