

Code No. 1041

**FACULTY OF MANAGEMENT**

**M.B.A. II – Semester (CBCS) Examination, May / June 2019**

**Subject: Financial Management**

**Paper – MB – 202**

**Time: 3 Hours**

**Max.Marks: 80**

**Note: Answer all the questions from Part-A and Part-B.  
Each question carries 4 marks in Part-A and 12 marks in Part-B.**

**PART – A (5x4 = 20 Marks)  
[Short Answer Type]**

- 1 Explain in brief about wealth maximization
- 2 What are the limitations of capital budgeting?
- 3 Explain the significance of cost of capital
- 4 What are the advantages of adequate working capital?
- 5 What is Marakon approach?

**PART – B (5x12 = 60 Marks)  
[Essay Answer Type]**

- 6 a) What is financial management? Discuss the role and responsibilities of financial manager in a modern business organization.  
**OR**  
b) A company has raised a loan of Rs. 5,00,000 from a financial institution at 8% p.a. rate of interest. The amount has to be paid back in 5 equal annual installments. Calculate the size of the installment.
- 7 a) What is capital budgeting? Explain its need and importance.  
**OR**  
b) A company proposes to install a machine involving a capital cost of Rs. 1,80,000. The life of the machine is five years and its salvage value at the end of the life is nil. The machine will produce the net operating income after depreciation of Rs. 34,000 per annum. Calculate the Internal Rate of Return of the proposal.
- 8 a) Explain the NI and NOI theories.  
**OR**  
b) Rekha Ltd. has the following book value of assets as on 31<sup>st</sup> March.

Equity share capital	Rs. 4,00,000
11% Preference share capital	Rs. 1,00,000
9% Debentures	Rs. 3,00,000
Total	Rs. 8,00,000

The equity share of the company sells for Rs. 20. It is expected that the company will pay next year dividend of Rs.2 per share, which is expected to grow at 5% forever. Assume 35% tax rate.

Calculate:

- i) Weighted Average Cost of Capital (WACC) of the company on the existing capital structure.
- ii) Compute the new WACC, if the company raises an additional Rs. 2,00,000 debt by issuing 12% debentures. This would result in increasing the expected equity dividend to Rs. 2.40 and leave the growth rate unchanged, but the price of the equity share shall fall to Rs. 16.

9 a) Explain the various factors which influence the dividend decision of a firm.

OR

b) The cost sheet of a company is as follows:

Elements of Cost	Amount Per unit (in Rs.)
Raw materials	50
Direct Labour	30
Overhead	60
Total Cost	160
Selling Price	200

The following particulars are available:

- i) Raw material in Stock 2 month
- ii) Work in process 15 days
- iii) Finished Goods 2 months
- iv) Cash Sales 50,000 units
- v) Creditors 45 days
- vi) Debtors 2 months
- vii) Cash at Bank Rs. 40,000
- viii) Cash in hand Rs. 50,000

Calculate the working capital requirement for annual production of 1,00,000 units.

10 a) Describe the legal process relating to approval of merger.

OR

b) Explain the principles of good corporate governance.

\*\*\*\*

May/June 2019  
Sem - II