Code No: E-2110/BL/O

FACULTY OF MANAGEMENT

MBA (CBCS) II - Semester (Backlog) Examination, August 2023
Subject: Financial Management
Paper No. MB - 202

Time: 3 Hours **Max. Marks: 80**

PART – A

Note: Answer all the questions. **(5 x 4 = 20 Marks)**

1. "The Wealth maximization objective provides an operationally appropriate decision criterion". Comment.
2. What are the reasons for NPV-IRR conflict?
3. Write about EBIT-EPS analysis.
4. "Length of operating cycle is the major determinant of working capital needs of a business firm". Explain.
5. What are the motives of mergers?

PART – B

Note: Answer all the questions. **(5 x 12 = 60 Marks)**

6. (a) Explain the traditional & Modern approaches of Financial Management.

(OR)

(b) Explain the major decisions taken under financial management.

7. (a) Explain the investment decision process.

(OR)

(b) A company is considering two mutually exclusive investment proposals. Their expected cash flow streams are given as follows:

Year	Proposal X (Rs.)	Proposal Y (Rs.)
0	-5,00,000	-7,00,000
1	1,45,000	1,00,000
2	1,45,000	1,10,000
3	1,45,000	1,30,000
4	1,45,000	1,50,000
5	1,45,000	1,60,000
6	1,45,000	1,50,000
7	-----	1,20,000
8	-----	1,20,000
9	-----	1,10,000
10	-----	1,00,000

The company employs risk adjusted method of evaluating risky projects and selects the appropriate required rate of return as follows:

Project Pay back	**Required Rate of Return**
Less than 1 year	8%
1 – 5 years	10%
5 – 10 years	12%
Over 10 years	15%

Which proposal should be acceptable to the company?

8. (a) What is meant by leverage? What are its types? How are they calculated?

(OR)

(b) A company has on its books the following amounts and specific costs of each type of capital:

Types of Capital	Book Value (Rs.)	Market Value (Rs.)	Specific Costs
Debt	4,00,000	3,80,000	5%
Preference	1,00,000	1,10,000	8%
Equity Retained Earnings	6,00,000 2,00,000	12,00,000	13%

Determine the weighted average cost of capital using
(i) Book Weights and (ii) Market Weights.

9. (a) Explain the determinants of working capital of a firm.

(OR)

(b) A firm has credit sales amounting to Rs.32,00,000. The sales price per unit is Rs.40; the variable cost is Rs.25 per unit while the average cost per unit is Rs.32. The average age of accounts receivable of the firm is 72 days.
The firm is planning to tighten credit standards. It will result in a fall in sales volume to Rs.28,00,000 and the average age of accounts receivable to 45 days.
Assume a 20% rate of return. Is the proposal under consideration feasible?

10. (a) Explain the types of mergers and which type of mergers mostly is used in India.

(OR)

(b) Describe the principles of good corporate governance.

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Code No: E-2211/BL/VO

FACULTY OF MANAGEMENT

M.B.A. (CBCS) II Semester (Very Old) Examination, August 2023
Subject: Financial Management
Paper- MB-202

Time: 3 Hours **Max. Marks: 80**

PART – A

Note: Answer all the questions. **(5 x 4 = 20 Marks)**

1. What is risk return trade off?
2. What is Payback period? What are its advantages and disadvantages?
3. What is leverage? What are the types?
4. What is working capital policy of a firm?
5. What are the types of mergers?

PART – B

Note: Answer all the questions. **(5 x 12 = 60 Marks)**

6. (a) Explain the nature and scope of financial management.

(OR)

(b) What are agency costs? What are the types? How can they be reduced?

7. (a) Explain the modern methods of capital budgeting.

(OR)

(b) A company employs the Certainty equivalent approach in evaluation of risky investments. The capital budgeting department has developed the following information regarding the new project:

ar	pected CFAT (Rs.)	ertainty equivalent quotient
0	-2,00,000	1.0
1	1,60,000	0.8
2	1,40,000	0.7
3	1,30,000	0.6
4	1,20,000	0.4
5	80,000	0.3

The firm's cost of equity capital is 18%; its cost of debt is 9% and the riskless rate of interest in the market on government securities is 6%. Should the project be accepted?

8. (a) Explain the long term sources of finance availed by business firms.

(OR)

(b) A company has the following specific cost of capital along with the indicated book and market value weights:

Type of Capital	Cost	Book value weights	Market value weights
Long term debt	5%	30%	25%
Preference Shares	10%	20%	17%
Equity Shares	12%	40%	46%
Retained Earnings	12%	10%	12%
		100%	100%

(i) Calculate the weighted average capital using book value and market value weights. Which of them do you consider better and why?

(ii) Calculate the weighted average capital using marginal weights if the company intends to raise the needed funds using 50% long term debt, 35% preference shares and 15% retained earnings.

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9. (a) Explain the factors determining working capital decision in a business firm.

(OR)

(b) The following information is available in respect of a firm:

Capitalisation rate (ke) =10%

Earnings per Share (E) = Rs.10

Assumed rate of return on investments (r):

(i) 15%

(ii) 8%

(iii) 10%

Show the effect of dividend policy on the market price of shares using Walter's model at D/P ratios of 0%, 25%, 50%, 75% and 100%.

10. (a) Explain the economic rationale of mergers.

(OR)

(b) Describe the approaches to Value based management.

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