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Question Paper Code : 63149

M.B.A. DEGREE EXAMINATION, APRIL/MAY 2017.

Second Semester

BA 7202 – FINANCIAL MANAGEMENT

(Regulations 2013)

Time : Three hours

Maximum : 100 marks

Answer ALL questions.

PART A — (10 × 2 = 20 marks)

1. What is Risk Premium? ✓
2. Why does money have time value? ✓
3. What is profitability index? ✓
4. What do you mean by Capital Rationing? ✓
5. State the significance of financial leverage. ✓
6. Defines stock split. ✓
7. List out the motives for holding cash. ✓
8. Write short note on economic Order Quantity. ✓
9. What is private equity? ✓
10. What are the companies represented in the sensex? ✓

PART B — (5 × 13 = 65 marks)

11. (a) Define, what is return? Write the various of total return. Whether unrealised capital gain or loss be included in the calculations of returns?

Or

(b) ABC company currently paying a dividend of ₹ 2 per share. The dividend is expected to grow at a 15% annual rate for the three years, then at 10% rate of the next three years, after which it is expected to grow at a 5% rate forever. L.E. =

(i) What is the present value of the share if the capitalisation rate is 9%?

(ii) If the share is held for three years, what shall be its present value?

Year :	1	2	3	4	5	6
PVF @ 9% :	0.917	0.842	0.772	0.708	0.650	0.596

12. (a) How is accounting rate of return calculated? Explain its merits and demerits.

Or

(b) Machine X has a cost of ₹ 75,000 and net cash flow of ₹ 20,000 per year, for six years. A substitute machine Y would cost ₹ 50,000 and generate net cash flow of ₹ 14,000 per year for six years. The required rate of return of both machines is 11%. Calculate the IRR and NPV for the machines. Which machine should be accepted and why?

	11%	12%	13%	14%	15%	16%	17%	18%
PVF 6 th Year :	4.231	4.111	3.998	3.889	3.784	3.685	3.589	3.498

13. (a) Discuss the procedure for determining the weighted average cost of capital. What are the factors affecting the weighted average cost of capital?

Or

(b) Calculate financial and operating leverages under situations when fixed costs are (i) ₹ 5,000 (ii) ₹ 10,000 and financial plans 1 and 2 respectively, from the following information pertaining to the operation and capital structure of ABC Co.

Total Assets	₹ 30,000	
Total assets turnover based on sales	2	
Variable costs as percentage of sales	60	
Capital structure :	Financial plans	
	1	2
Equity	₹ 30,000	10,000
10% debenture	₹ 10,000	30,000

14. (a) Discuss the various opportunities available to the companies to park their surplus funds for a short term.

Or

- (b) From the following information, prepare a cash budget for three months from June to August :

Month	Sales	Purchases	Wages	Overheads	Expenses
June	72,000	25,000	10,000	6,000	5,500
July	97,000	31,000	12,100	6,300	6,700
August	86,000	25,500	10,600	6,000	7,500

- (i) Cash balance in hand as on 1st June ₹ 72,500
(ii) 50% of sales are cash sales
(iii) A fixed assets has to be purchased for ₹ 8,000 in July
(iv) Debtors are allowed one month's credit
(v) Creditors for materials grant one month's credit
(vi) Sales commission at 3% on sales is paid to the salesman each month.
15. (a) Discuss the various procedure involved in obtaining a term loan.

Or

- (b) Explain in detail legal aspects of leasing. What are the contents of a lease agreement?

PART C — (1 × 15 = 15 marks)

16. (a) You are required to calculate the overall cost of capital, from the following capital structure of a company.

	₹
1,000 12% Preference shares of ₹ 100 each issued at par	1,00,000
10,000 Equity shares of ₹ 10 each issued at par	1,00,000
5,000 10% Debentures of ₹ 100 each issued at par	5,00,000
12% Term loan	2,00,000
Retained earnings	1,50,000

The market price of an equity share is ₹ 30. The next expected dividend is ₹ 3 per share and the dividend per share is expected to grow at 10%. The preference shares are redeemable after 7 years at par and are currently quoted at ₹ 75 per share. The debentures are redeemable at par after 5 years and are quoted at ₹ 90 per debenture. The tax rate applicable to the company is 40%.

Or