Code No. 4591

FACULTY OF MANAGEMENT

M.B.A. II – Semester (CBCS) Examination, July 2018

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]

Note: Answer all the questions in not more than one page each.

1 Discuss time value of money concept

2 Explain the advantages of Payback period method

3 What is overall cost of capital?

4 Explain Economic Order Quantity

5 Discuss the principles of good governance

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

Note: Answer all the questions by using internal choice.

6 a) Discuss why the objective of wealth maximization is superior to profit maximization goal.

OR

b) Describe the nature and scope of financial management.

7 a) Explain the investment decision process.

OR

b) A company is considering a proposal to buy one of the two machines to manufacture a new commodity. Each of the machines requires investments of Rs. 50,000 and is expected to provide benefits over a period of 10 years. The firm has made estimates of the cash flows. The estimates are as follows:

Particulars	Machine A (Rs.)	Machine B (Rs.)
Investment	50,000	50,000
Cash Flow estimates:		
Years 1 – 5	10,000	8,000
Years 6 – 8	12,000	10,000
Years 9 & 10	14,000	18,000

Assuming 12% cost of capital, calculate NPV, which machine should be selected.

..2

8 a) Discuss the sources of long term finance. .

OR

b) Calculate WACC using book value weights and market value weights, from the following information.

	Cost of capital (%)	Book value (Rs)	Market value (Rs)
Debt	8	5,00,000	5,00,000
Preference	12%	10,00,000	11,00,000
Equity	16%	15,00,000	25,00,000
Retained earnings		10,00,000	10,00,000
		40,00,000	51,00,000

9 a) Explain the Walter's relevance dividend theory with example.

OR

b) A company has Rs. 10 lacs sales p.a. and sells its product at a sale price of Rs. 10 per unit. Variable cost per unit is Rs. 6 and average cost per unit is Rs. 7 per unit. It offers 20 days credit and ACP is 30 days. Present bad debts are 1% of sales, and collection costs are 2% of sales. Return on investment is 15%. If the credit period is raised to 30 days, ACP is expected to increase to 45 days, and bad debts to 2%. Sales will rise by 10,000 units, collection costs will remain unchanged. Should the company relax the credit period?

10 a) Discuss the economic rationale of mergers.

OR

b) Explain the corporate value based management systems.

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