Subject Code: MB1321/R13

M B A- II Semester Regular/Supply Examinations, Aug - 2015

FINANCIAL MANAGEMENT

Time: 3 hours **Max Marks: 60**

Answer any **FIVE** of the following

All questions carry equal marks. **Q.No.8 is compulsory**

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1. Define the need and scope of Financial Management in public utility.

2. Define Operating and Financial leverage. How can you measure the degree of operating and financial leverage? Give suitable example

3. The following information is available for two firms, Xmart and Ymart Corporation.

	Xmart	Ymart
Net Operating Income	Rs. 2,000,000	Rs. 2,000,000
Interest on Debt	Nill	500,000
Cost of Equity	15%	15%
Cost of Debt	10%	10%

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(a) Calculate the market value of equity, market value of debt and market value of the firm for Xmart Corporation and Ymart Corporation.

(b) What is the average cost of capital for each of the firms?

(c) What happens to the average cost of capital of Xmart Corporation if it employs Rs. 30 million of debt to finance a project that yields an operating income of Rs. 4 millions?

(d) What happens to the average cost of capital of Ymart Corporation if it sells Rs. 10 millions of additional equity (at par) to retire Rs. 10 million of outstanding debt? In answering the above questions assume that the net income approach applies and there are no taxes.

4. What is Capital Budgeting? And explain the phases of Capital Budgeting process.

5. Equipment A has a cost of Rs. 75,000 and net cash flow of Rs. 20,000 per year for six years. A substitute equipment B would cost Rs. 50,000 and generate net cash flow of Rs. 14,000 per year for six years. The required rate of return of both equipment is 11%. Calculate the IRR and NPV for each equipment. Which equipment should be accepted and Why?

6. Why should inventory to be held? Why is inventory management important? Explain the objectives of inventory management.

7. Given the following information about Sunrise industries Ltd. Show the effect of the dividend policy on the market price per share, using walter's model.
   EPS= Rs.8, Cost of capital (K) = 12%
   Assumed rate of return (a) 15%
   (b) 10%
   (c) 12%

8. What is Modigliani – Miller irrelevance hypothesis? Critically evaluate its assumptions.

CASE

X & Y Company is desirous to purchase a business and has consulted you and one point on which you are asked to advise them is the average amount of working capital which will be required in the first year's working.

You are given the following estimates and are instructed to add 10% to your computed figure to allow for contingencies.

		Amount for the Year (Rs.)
(i)	Average amount backed up for stocks	
	Stocks of finished goods	5,000
	Stocks of stores, materials etc.	8,000
(ii)		Average credit given
	Island sales 6 weeks' credit	3,12,000
	Export sales 1 ½ Weeks' credit	78,000
(iii)		Average time lag in payment of

wages and others
Outgoings:

Wages	1 ½ weeks	2,60,000
Stock, Materials etc.	1 ½ months	48,000
Rent, Royalties etc.	6 months	10,000
Clerical staff	1 ½ months	62,400
Manager	1 ½ months	4,800
Miscellaneous expenses	1 ½ months	48,000

(iv) Payment in advance:

Sundry expenses (paid quarterly 1 advance) 8,000
Undrawn profits on the average throughout the year 11,000

Set up your calculations for the average amount of working capital required.

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