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SIDDHARTH INSTITUTE OF ENGINEERING & TECHNOLOGY:: PUTTUR
(AUTONOMOUS)
MBA I Year II Semester Regular Examinations May 2019
FINANCIAL MANAGEMENT

Time: 3 hours

Max. Marks: 60

(Answer all Five Units 5 x 10 = 50 Marks)

UNIT-I

- 1 a What is financial management? Explain nature and scope of financial management. 6M
b Discuss Agency relationships and agency costs. 4M

OR

- 2 a "The financial analyst should take into account time value of money to take investment decision" – Discuss. 5M
b Describe various important functions of finance. 5M

UNIT-II

- 3 a What is capital budgeting and discuss the process of capital budgeting. 5M
b No project is acceptable unless the yield is 10 percent. Cash inflows of a certain project along with cash outflows are given below.

Year	0	1	2	3	4	5
Cash flow (Rs.)	1,50,000	----	-----	-----	-----	---
Cash flow (Rs.)	-----	20,000	30,000	60,000	80,000	30,000

The salvage value at the end of 5th year is Rs. 40,000. Calculate the NPV.**OR**

- 4 a Define cost of capital. How do you compute of cost debt? 5M
b XYZ issues 40,000, 9% irredeemable preference shares of 100 each. Flotation costs are estimated at 1% of the sale price. Calculate A) the cost of preferred stock if preferred shares are issued at (i) par value (ii) 9% premium (iii) 3% discount. 5M

UNIT-III

- 5 a Discuss the factors that influence capital structure decision of a firm. 5M
b A firm has sales of 1, 00,000 units at Rs.10 per unit. Variable cost of the produced product is 60 percent of the total sales revenue. Fixed cost is Rs.2, 00,000. The firm has used a debt of Rs.5, 00,000 at 20 percent interest. Calculated the operating leverage and financial leverage. 5M

OR

- 6 a Define Leverage. Explain the different types of Leverages. 5M
b Explain EBIT - EPS analysis. 5M

UNIT-IV

- 7 a Explain the important aspects of dividend policy. 5M
b The following information is available is respect of a firm:
Capitalization rate (K_e) = 0.20
Earnings per Share (EPS) = Rs.20
Assume rate of return on investments (r); (i) 10 (ii) 8 and (iii) 12.
Show the effect of dividend policy on the market price of shares, using Walter's model. 5M

OR

- 8 a** Discuss in detail the Gordon's dividend theory. 5M
b Following data relate to a firm is given.
Share capital (at Rs.10 per share) Rs.12.5crores
Reserves Rs.7.5 cr
Profit after tax Rs.1.85 cr 5M
Dividend paid Rs.1.50 cr
P/E ratio Rs.13.33 cr
Determine the Optimum payout ratio using Walter's model.

UNIT-V

- 9 a** Explain the determinants of working capital requirement in detail. 5M
b What is meant by Working capital? How could you measure the length of the operating cycle? 5M

OR

- 10 a** Discuss how working capital affects both the liquidity and profitability of a business. 5M
b Explain the techniques that can be used to accelerate a firm's collection. 5M

SECTION – B

(Compulsory Question)

11. Case Study

1 x 10 = 10 Marks

A company has to select one of the following two projects :

Particulars	Project A	Project B (in rupees)
Cost	11,000	10,000
Cash flows:		
1	6,000	1,000
2	2,000	1,000
3	1,000	2,000
4	5,000	10,000

Use the internal rate of return method suggest which project is preferable.

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