SIDDHARTH INSTITUTE OF ENGINEERING & TECHONOLOGY: PUTTUR

Department of MBA- II Semester

SUB: FINANCIAL MANAGEMENT (18MB9009)

Unit – I

1. What is financial management? Explain nature and scope of financial management.[10M]
2. Define financial management. Describe various important functions of finance [10M]
3. Discuss" Profit maximization vs wealth maximization" [10M]
4. Define finance and explain the role of financial manager. [10M]
5. 'Every Manager has to take three major decisions while performing the finance function' briefly explain them. [10M]
6. What is meant by 'Financial management' Explain its importance. [10M]
7. What is Time value of money? Describe the relevance of time value of money in financial decision making? [10M]
8. Explain why, the concepts of risk and time value of money is important in making investment and financing decisions. [10M]
9. " The financial analyst should take into account time value of money to take investment decision' – Discuss [10M]
10. Discuss Agency relationships and agency costs? [10M]

Unit – II

1. Discuss the process of investment decision? [10M]
2. What is capital budgeting? Discuss different types of capital budgeting proposals? [10M]
3. Define cost of capital. Explain its significance. [10M]
4. Explain the different methods of evaluating Investment projects with examples and their merits and demerits. [10M]

5. A company has to select one of the following projects: [10M]

Particulars	Project A (Rs)	Project B (Rs)
Cost	11,000	10,000
Cash Inflows:		
Year 1	6000	1,000
Year 2	2000	1000
Year 3	1000	2000
Year 4	5000	10,000

Use the Internal Rate of Return method to suggest a project.

6. How would you apply the cost of capital concept when projects with different risks are evaluated? [10M]

7. A company has to make a choice between buying of two machines. Machine X would cost Rs.1,00,000 and require cash running expenses of Rs.32,000 p.a. Machine Y would cost Rs.1,50,000 and its cash running expenses would amount to Rs.20,000 p.a. Both the machines have a life of 10 years with Zero salvage value. The company follows straight line method of depreciation and is subject to 50% tax on its income. The company's required rate of return is 10%. Which machines should it buy? Net present value of Rs.1 p.a. for 10 years @10% discount rate is Rs.6,1446. [10M]

8. Discuss cost of equity and cost of debt? [10M]

9. XYZ issues 40,000 ; 9% irredeemable preference shares of 200 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 B) also compute cost of preference shares in these situations assuming 20% dividend tax? [10M]

10. Rajesh corporation previous dividend, Do, was Rs.12.00. Earnings and dividends are expected to grow at a rate of 10 percent thereafter. The required rate of return on Rajesh's stock is 15 percent. What should be the market price of Rajesh's stock now? [10M]

Unit – III

1. Determination of capital structure of a company is influenced by a number of factors' explain six such factors. [10M]

2. Define Capital structure. Explain fundamental principles governing capital structure.

[10M]

3. Explain capital structure relevant theories? [10M]
4. A company has a total sales of Rs.10,00,000, variable cost of 70%, total cost Rs.9,00,000 and debt of Rs.5,00,000 @ 10% rate of interest and its tax rate is 40%. What are Financial, Operating leverages and Earnings after tax? If the firm wants to double up its EBIT, how much of a rise in sales would be needed on a percentage basis? [10M]
5. From the particulars of Ganesh Ltd, calculate operating and financial leverages. The company's current sales revenue is Rs.15,00,000 and sales are expected to increase by 25% Rs.9,00,000 are incurred on variable expenses for generating Rs.15,00,000 sales revenue. The fixed cost is Rs.20,00,000 10% debt capital. The face value of equity share is Rs.10 and tax rate applicable to this company is 50% [10M]
6. How do you design a capital structure of an organization? Explain the various operating leverage and revaluation of that organization's capital with an example. [10M]
7. Define Leverage. Explain the different types of Leverages. [10M]
8. Critically examine capital structure irrelevant theories? [10M]
9. An analytical statement of Y Ltd., is as followos: [10M]

	Rs.
Sales	9,60,000
Varaiable cost	5,60,000
Revenue before FC	4,00,000
Fixed cost	2,40,000

Earnings before tax	1,60,000
Interest	60,000
Earnings before tax	1,00,000
Tax	50,000
Net income	50,000

Compute the degree of leverage: (i) Operating leverage (ii) Fiancial leverage (iii) The composite leverage from the above data.

10. Explain EBIT - EPS analysis. [10M]

Unit –IV

1. Critically analyze the assumption of MM Hypothesis of irrelevance dividend theory. [10M]

2. The following information is available is respect of a

firm: Capitalization rate (Ke) = 0.10

Earnings per Share (E) = Rs.10

Assume rate of return on investments (r); (i) 15 (ii)8 and (iii) 10.

Show the effect of dividend policy on the market price of shares, using Walter's model. [10M]

3. With an example compare and contrast Walter and Gordon's model on dividend policy. Which do you think to be the best? Justify your answer with scenarios. [10M]

4. Following data relate to a firm is given. [10M]

Share capital (at Rs.10 per share) Rs.12.5crores

Reserves Rs.7.5 cr

Profit after tax Rs.1.85 cr

Dividend paid Rs.1.50 cr

P/E ratio Rs.13.33 cr

Determine the:

(1) Optimum payout ratio using Walter's model

(2) Determine the price earnings ratio of which dividend payout will have no effect on share price

5. Given the following information about Rama Industries Limited show the effect of the dividend policy on the market price per share, using Walter's model. EPS = Rs.8; Cost of capital = 12%; Assumed rate of return: [10M]

(i) 15%

(ii) 10%

(iii) 12%

6. Explain the important aspects of dividend policy. [10M]

Prove the Miller and Modigliani hypothesis with the help of the arbitrage mechanism. [10M]

7. A low dividend payout ratio promotes the welfare of stock holders because long-term capital gains are treated more favourable than dividends income from the tax point of view. Discuss? [10M]

8. Explain the two propositions of Modigliani- Miller (MM) hypothesis on capital structure. How does MM prove their hypothesis? [10M]

9. A). What are the factors that determine the dividend policy of a company? [10M]

B). Write short notes on:

(i) Walter's Model

(ii) Stable dividend policy

Unit - V

1. Explain the Operational efficiency in the determination of working capital requirements. [10M]

2. Discuss how , Working capital affects both the liquidity and profitability of a business. [10M]

3. What is meant by Working capital? How is it calculated? Explain the determinants of working capital requirements. [10M]
4. Discuss various sources of working capital in detail? [10M]
5. Explain the techniques that can be used to accelerate a firm's collection. [10M]
6. List and explain the determinants of working capital. [10M]
7. With examples discuss the techniques adopted by firm's to cut down their operating cycle. [10M]
8. Discuss the factors to be considered for deciding optimal level of inventory. [10M]
9. What is working capital? How could you measure the length of the operating cycle[10M]
10. What factors determine their size of the investment a company makes in Accounts receivables? Which of these factors are under the control of the Finance Manager? [10M]

CASE STUDIES

1) Given the following information about Rama Industries Limited show the effect of the dividend policy on the market price per share, using Walter's model. EPS = Rs.8; Cost of capital = 12%; Assumed rate of return:

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