

R22

Code No: 782AC

JAWAHARLAL NEHRU TECHNOLOGICAL UNIVERSITY HYDERABAD

MBA II Semester Examinations, August / September - 2023

FINANCIAL MANAGEMENT

Time: 3 Hours

Max.Marks:60

Note: This question paper contains two parts A and B. i) **Part- A** for 10 marks, ii) **Part - B** for 50 marks.

- Part-A is a compulsory question which consists of ten sub-questions from all units carrying equal marks.
- Part-B consists of **ten questions** (numbered from 2 to 11) **carrying 10 marks each**. From each unit, there are two questions and the student should answer one of them. Hence, the student should answer any five questions from Part-B.

PART- A

(10 Marks)

1. Explain the following:
- a) Profit Maximization. [1]
 - b) Risk-Return Trade-off. [1]
 - c) Marginal Cost of Capital. [1]
 - d) Traditional Methods of Capital Budgeting. [1]
 - e) Operating Leverage. [1]
 - f) Financial Structure. [1]
 - g) Rights Issue. [1]
 - h) Forms of Dividend. [1]
 - i) Cash Budget. [1]
 - j) Gross Working Capital. [1]

PART-B

(50 Marks)

- 2.a) Explain the nature and scope of Financial Management. [5+5]
b) Compare and contrast Profit maximization and Wealth maximization. [5+5]
- OR**
3. How should the finance function of a Firm be Organized? What are the major functions of a Financial Manager. [10]
- 4.a) What is Capital Budgeting? Why is it significant for a Firm?
b) Explain Investment Decision Process. [5+5]
- OR**
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's is 11 per cent. Calculate the IRR and NPV for the equipment's. Which equipment should be accepted and why? [10]

6. Explain the assumptions and implications of the NI approach and the NOI approach. Illustrate your answer with hypothetical examples. [10]

OR

7. Firms A and B are similar except that A is unlevered, while B has Rs. 200,000 of 5 per cent debentures outstanding. Assume that the tax rate is 40 per cent, NOI is Rs. 40,000 and the cost of equity is 10 per cent.

i) Calculate the value of the firms, if the M-M assumptions are met.

ii) Suppose $V_B = \text{Rs. } 360,000$.

According to M-M hypothesis, do these represent equilibrium values? How will equilibrium be set? Explain. [10]

8.a) Explain the nature of the factors that influence the dividend policy of a firm?

b) Explain the various forms of Dividend.

[5+5]

OR

9. XYZ company belongs to a risk class of which the appropriate capitalization rate is 10%. It currently has 1,00,000 shares selling at Rs. 100 each. The firm is contemplating the declaration of Rs. 6/- dividend of the end of current fiscal year, which has just begun.

Answer the following questions based on MM model. Assume that no taxes prevail

a) What will be the price of the share @ the end of a year if dividend declared and if dividend not declared?

b) Assuming that the firm pays dividend, has a Net income of Rs. 10,00,000 and makes a new investment of Rs.20,00,000 during the period how many new shares have to be issued. [10]

10.a) Briefly explain the factors that determine the working capital needs of a firm.

b) What is Credit Policy? Why credit Standards are important?

[5+5]

OR

11. A manufacturing company has an expected usage of 50,000 units of certain product during the next year. The cost of processing an order is Rs. 20 and the carrying cost per unit is Re 0.50 for one year. Lead time on an order is five days and the company will keep a reserve supply of two days' usage. You are required to calculate

a) The economic order quantity and

b) The reorder point (Assume 250 - day year).

[10]

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