

R22

Code No:782AC

JAWAHARLAL NEHRU TECHNOLOGICAL UNIVERSITY HYDERABAD

MBA-II Semester Examinations, February/March - 2024

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**. Each of these questions is from each unit and may contain sub-questions. For each question there will be an “either” “or” choice, which means that there will be two questions from each unit and the student should answer either of the two questions.

PART- A

(10 Marks)

- 1.a) Ahmed deposits Rs. 300 at the end of each quarter in his savings account. If the account earns 5.75% yearly, how much money will he have in 4 years? [1]
- b) Explain the basic valuation model. [1]
- c) A firm issued 10,000, 10% debentures of Rs. 10 each at a premium of 5% with a maturity period of 20 years. The tax rate is 50%. Find the cost of capital. [1]
- d) Differentiate between NPV and IRR. [1]
- e) What is composite leverage? [1]
- f) Mehta Company Limited is expecting an annual EBIT of Rs. 2,00,000. The company has Rs. 5,00,000 in 10% debentures. The cost of equity capital or capitalization rate is 12.5%. Compute the value of the firm. [1]
- g) What are the factors determining dividend policy? [1]
- h) X Ltd. earns Rs.6 per share having a capitalization rate of 10% and has a return on investment of 20%. According to Walter's model, what should be the price of the share at 25% dividend pay-out? [1]
- i) ABC Ltd. has the following current assets and liabilities: Cash Rs. 20,000; Accounts Receivable Rs.25,000; Inventory Rs.15,000; Accounts Payable Rs.10,000. Calculate Net Working Capital. [1]
- j) How credit evaluation of individual accounts happens? [1]

PART-B

(50 Marks)

- 2.a) Your client is 40 years old and wants to begin saving for retirement. You advise the client to put Rs. 5,000 per year into the stock market. You estimate that the market's return will be on average of 12% a year. Assume the investment will be made at the end of the year. To take advantage of yearly pay hikes, you also advised your client to increase her yearly investment amount by Rs.1000 over the previous year's amount. How much money will she have by age 65? [7+3]
- b) Brief on goals of finance function. [7+3]

OR

3. Illustrate using an example to show how future value and present value can be determined. [10]

(Contd...)

- 4.a) ABC Ltd. issues 15% debentures of face value of Rs. 1000 each at a flotation cost of Rs. 50 per debenture. Find out the cost of capital of the debenture which is to be redeemed in 5 annual instalments of Rs. 200 each starting from the end of year 1. The tax rate is 30%.
- b) Illustrate the capital budgeting techniques. [6+4]

OR

- 5.a) Explain in detail the investment decision process.
- b) Describe the concept and measurement of cost of capital. [5+5]
6. A company requires Rs 30,00,000 to finance its operations. Financing options are:
- a) Equity 3,00,000 shares @ Rs 10 per share = Rs 30,00,000
- b) Equity 2, 00,000 shares @ Rs 10 per share = Rs 20, 00,000 and debt @ 10% per annum = Rs 10,00,000.
- c) Equity 1, 00,000 shares @ Rs 10 per share = Rs 10, 00,000 and debt @ 10% per annum = Rs 20,00,000.
- Rate of return is 13.33%, Earning before interest and taxes (EBIT) = Rs 4,00,000 and Tax Rate = 30%
- Which option would you recommend? [10]

OR

- 7.a) Explain break-even analysis of financial leverage.
- b) Brief on NOI theory and traditional theory. [5+5]
- 8.a) Calculate the market price of equity share for Y Corporation using the given data: Internal rate of return = 15%, Rate of Return = 10%, Dividend Payout Ratio is : (i) 20%, (ii) 50%, (iii) 75%, (iv) 100%.
- b) Describe the methods of valuation of the firm. [6+4]

OR

9. The EPS of a company is Rs.10 and the rate of capitalization (k) is 10%. The company proposes dividend pay-out options (i) 20% , (ii) 40% , (iii) 80%. Compute the market value of share if the rate of return (r) are (i) 8% , (ii) 10% , (iii) 15% , (iv) 20%. Draw inferences by applying Walter's and Gordon's Model. [10]

(Contd...)

10. Following is the information of Shri Aruna Industries Ltd. Latur for the year 30th June 2018. Their plan is to sell 30,000 units in the year 2018-2019. The expected cost of goods sold is as under you are required to calculate the working capital requirements.

Particulars	Rs. (Per Unit)
Raw material	100
Manufacturing expenses	30
Selling, administration and financial expenses	20
Selling price	200

The duration at various stages of the operating cycle is expected to be as follows:

- Raw material stage 2 months
- Work-in-progress stage 1 month
- Finished goods stage 1/2 month
- Debtors stage 1 month

Assuming that the monthly sales level of 2,500 units, estimate the gross working capital necessity. Expected cash balance is 5% of the gross working capital necessity, and working-progress is 25% complete with respect to manufacturing expenses. [10]

OR

- 11.a) What are the determinants of working capital needs?
b) Examine the basic strategies for cash management and illustrate the cash management processes with an example. [4+6]

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