

**R22**

Code No: 782AC

**JAWAHARLAL NEHRU TECHNOLOGICAL UNIVERSITY HYDERABAD**

**MBA II Semester Examinations, February/March - 2025**

**FINACIAL 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) What is net present value? [1]
- b) What is the agency relationship in an organization? [1]
- c) What is weighted average cost of capital? [1]
- d) What are mutually exclusive projects? [1]
- e) What is financial flexibility in capital structure? [1]
- f) What is the meaning of financial leverage? [1]
- g) What is meant by the tax neutrality of dividend? [1]
- h) What are the forms of dividends? [1]
- i) What is the meaning of net working capital? [1]
- j) What is management of inventory? [1]

**PART – B**

**(50 Marks)**

- 2.a) What is wealth maximization? How is it superior to profit maximization? [5]
  - b) Brief on evolution of finance function and its role in current era. [5]
- OR**
- 3.a) Exactly ten years from now Sri Chand will start receiving a pension of ₹3,000 a year. The payment will continue for sixteen years. How much is the pension worth now, if Sri Chand's interest rate is 10 percent? [5]
  - b) Describe the basic valuation model with an example. [5]
- 4.a) Discuss how to evaluate the investment decision. [5]
  - b) Illustrate the capital budgeting techniques in brief. [5]

**OR**

5. Consider the following two Projects. Calculate their NPV at 9 percent and IRR. Do you find a difference in project ranking as per these two criteria? Why? Which project will you choose? [10]

Cash Flows	Project P	Project Q
C <sub>0</sub>	-840	-840
C <sub>1</sub>	700	70
C <sub>2</sub>	350	420
C <sub>3</sub>	70	760

- 6.a) Discuss the information asymmetry and the pecking order theory of capital structure. [6+4]  
 b) Brief on Capital Structure Vs Financial Structure.

**OR**

7. The Levered Company and the Unlevered Company are identical in every respect except that the Levered Company has 6 percent ₹200,000 debt outstanding. As per the NI approach, the valuation of the two firms is as follows:

	Unlevered Co. (₹)	Levered Co. (₹)
Net operating income $X \text{ Bar}$	60,000	60,000
Total cost of debt, $k_d D$	0	12,000
Net earnings, NI	60,000	48,000
Equity capitalization rate $k_e$	0.100	0.111
Market value of shares, E	6,00,000	4,32,000
Market value of debt, D	0	2,00,000
Total value of the firm, V	6,00,000	6,32,000

Mr. X holds ₹2,000 worth of the Levered Company's shares. Is it possible for Mr. X to reduce his outlay to earn same return through the usage of arbitrage? Illustrate. [10]

8. Explain the assumptions, limitations, and the essence of Walter's model. [10]

**OR**

9. The earnings per share of a company are ₹10. It has an internal rate of return of 15 percent and the capitalization rate of its risk class is 12.5 percent. If Walter's model is used: (a) What should be the optimum payout ratio of the firm? (b) What would be the price of the share at this payout? (c) How shall the price of the share be affected if a different payout were employed? [10]

- 10.a) Explain the main components of working capital management.

- b) Brief on credit evaluation approaches of individual accounts. [5+5]

**OR**

11. A company has ₹4 per year carrying cost on each unit of inventory, an annual usage of 50,000 units and an ordering cost of ₹100 per order. Calculate the economic order quantity. What shall be the total annual cost of EOQ? If a quantity discount of ₹ 0.25 per unit is offered to the company when it purchases in lots of 1,000 units, should the discount be accepted? [10]