CODE: 17CE00207

MBA I Year II Semester (R17) Regular Examinations, June - 2018

FINANCIAL MANAGEMENT

Time : 3 hours Max Marks : 60

PART-A

Answer all **five** units (05 × 10 = 50 Marks)

UNIT-I

1. (a) Define financial management. Explain the functions of financial management.

(b) Examine the role of financial manager in the contemporary scenario.

OR

2. (a) Define finance function. Demonstrate the objectives of finance function.

(b) Describe various types of phases which are involved in the evolution of finance function.

UNIT-II

3. (a) Define Pay-back period method. Discuss the merits and demerits of Pay-back period method.

(b) A Company has an investment opportunity costing Rs.40,000 with the following expected net cash flow after taxes and before depreciation.

Years	Net Cash Flows (Rs.)	P.V. of Rs.1 @10% D.f	P.V. of Rs.1 @15% D.f
1	7,000	0.909	0.870
2	7,000	0.826	0.756
3	7,000	0.751	0.658
4	7,000	0.683	0.572
5	7,000	0.621	0.497
6	8,000	0.564	0.432
7	10,000	0.513	0.376
8	15,000	0.467	0.327
9	10,000	0.424	0.284
10	4,000	0.386	0.247

Using 10% as the cost of capital, Determine. (i)Net Present Value @10% D.F. and 15% D.F. (ii) Internal Rate of Return with the help of 10% and 15% D.F.

OR

4. (a) What is Net Present Value Method. Explain the advantages and disadvantages of Net Present Value Method.

(b)

Particulars	Project-A	Project-B
Original Investment	Rs.20,000	Rs.30,000
Expected Life (No salvage value)	4 Years	5 Years
Projected Net Income (PAT)		
1^{st} Year	Rs. 2,000	Rs.3,000
2^{nd} Year	1,500	3,000
3^{rd} Year	1,500	2,000
4^{th} Year	1,000	1,000
5^{th} Year	Nil	1,000
Total PAT	6,000	10,000

Calculate the Accounting Rate of Return (ARR) for the projects A and B on
(i) Original Investment (ii) Average Investment from the following information.

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UNIT-III

5. (a) Define Dividend. Enumerate various forms of Dividends.

(b) Suppose a firm has a capital structure exclusively comprising of equity share capital of Rs.2,00,000. Now the firm wishes to raise Rs.3,00,000 additionally. The firm has four alternative financial plans.

a) It can raise the entire amount in the form of a equity capital.
b) It can raise 50 percent as equity capital and 50 percent as 5% debentures.
c) It can raise entire amount as 6% debentures.
d) It can raise 50 percent as equity capital and 50 percent as 5% preference share capital.

Further assume that existing EBIT is Rs.30,000 and the rate of tax 35% outstanding ordinary shares are 2000 and the market price per share is Rs.100 under all the four alternatives which financial plan should be recommended on the basis of EPS.

OR

6. (a) Critically examine the measurement of cost of capital.

(b) A company's after tax the cost of capital of the specific sources is as follows:

Source of Finance	**Book Value (Rs.)**	**Market Value (Rs.)**	**Specific Cost (Rs.)**
Equity Capital	16,00,000	30,00,000	17
Retained Earnings	4,00,000	Nil	Nil
Preference Capital	8,00,000	10,80,000	14
Debt Capital	12,00,000	10,80,000	08

Compute the weighted average cost of capital from the above information.

UNIT-IV

7. (a) Define working capital. Elucidate the concepts and characteristics of working capital.

(b) A company is expecting to have Rs.32,000 cash in hand on 1-4-2005 and it requests you to prepare Cash Budget for 3 months i.e.; April to June 2005. The following information is supplied to you.

Months	**Sales (Rs.)**	**Purchases(Rs.)**	**Wages(Rs.)**	**Expenses(Rs.)**
Feb	70,000	44,000	6,000	5,000
Mar	80,000	56,000	9,000	6,000
April	96,000	60,000	9,000	7,000
May	1,00,000	68,000	11,000	9,000
June	1,20,000	62,000	14,000	9,000

Other information:

i. 2 months credit is allowed by suppliers.
ii. 25% of sales in cash and 1 month credit is allowed to customers.
iii. Delay in the payment of expenses and wages for one month.

Income tax of Rs.28,000 paid in June 2005.

OR

8. (a) State the concept of receivables management. Briefly explain the factors which are considering receivables size of business.

(b) The annual demand for a product is 6,400 units. The unit cost is Rs.6 and inventory carrying cost per unit per annum is 25% of the average inventory cost. If the cost of procurement is Rs.75, determine (a) Economic Order Quantity (b) Number of orders per annum and (c) Time between two consecutive orders.

UNIT-V

9. (a) Discuss the meaning of Merger and Acquisition. Distinguish between Merger and Acquisition.

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(b) Jay Manufacturing Company is going to acquire OM Distributors. The shareholders of OM Distributors will get 0.9 shares of Jay Manufacturing Company for each share held by them. The merger is not expected to yield in economies of scale and operating synergy. The relevant data for the two companies are as follows:

Particulars	Jay Manufacturing Co.	OM Distributors
Net sales (Rs. in lakhs)	600	500
Profit after tax (Rs. lakhs)	60	15
Number of shares (lakhs)	15	5
Earnings per share (Rs.)	4	3
Market value per share	45	30
Price earnings ratio	11.25	10

For the combined company (after merged) you need to calculate (i) EPS (II) P/E Ratio (iii) Market value per share (iv) Number of shares and (v) Total market capitalization. Also calculate the premium paid by Jay Manufacturing Company to the shareholders of OM Distributors.

OR

10. (a) Demonstrate different types of takeover and anti-takeover strategies.

(b) Discuss the meaning and the financial benefits of mergers.

PART-B

Compulsory Question. (01 × 10 = 10 Marks)

11. **Case Study:**

(a) The following data pertains to Firm A and Firm B

Particulars	Firm- A	Firm- B
Present Earnings (Rs. in Millions)	20	4
Shares (in Millions)	10	1
Price /earnings Ratio	18	10

(i) If we two firms were to merge and the exchange ratios were share of the firm A for each share firm B, what would be the initial impact of EPS on the two firms?

(ii) If the firm A wants to takeover firm B by offering a premium of 20% over the market price of the share, what is the ratio of exchange of stock and how many new shares will be issued?

(b) XYZ company is acquiring PQR company. XYZ company will pay 0.5 of its shares to the shareholders of PQR company for each share held by them. The data for the two companies are as given below:

Particulars	XYZ Company	PQR Company
Profit after tax (Rs. In lakhs)	150	30
Number of shares(lakhs)	25	8
Earnings per share(Rs.)	6.00	3.75
Market price of share (Rs.)	78.00	33.75
Price-Earnings Ratio	13	9

Calculate the earnings per share of the surviving firm after merger. If the price-earnings ratio falls to 12 after the merger, what is the premium received by the shareholders of PQR (Using the surviving firms new price)? Is the merger beneficial for XYZ's Shareholders?

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