

**MADANAPALLE INSTITUTE OF TECHNOLOGY & SCIENCE, MADANAPALLE**  
(UGC-AUTONOMOUS)

**MBA I Year II Semester (R14) Supplementary End Semester Examinations – Jan 2019**  
**FINANCIAL MANAGEMENT**

Time: 3Hrs

Max Marks: 60

Attempt all the questions. All parts of the question must be answered in one place only.  
In Q.no 1 to 5 answer either Part A or Part B only. Q.no 6 which is a case study is compulsory.

Q.1(A) "Financial Management deals with procurement of funds and their effective utilization in the business". Elaborate. 10M

OR

Q.1(B) Discuss in detail about the trade-off relationship between risk and return. 10M

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Q.2(A) Assuming the firm pays tax at a 50 per cent rate, compute the after-tax cost of capital in the following cases: 10M

- (i) A ten year, 8 per cent, Rs.1,000 par bond sold at Rs.950 less 4 per cent underwriting commission.
- (ii) A preference share sold at Rs.100 with a 9 per cent dividend and a redemption price of Rs.110 if the company redeems it in 5 years.
- (iii) An ordinary share selling at a current market price of Rs.120, and paying a current dividend of Rs.9 per share, which is expected to grow at a rate of 8 per cent.

OR

Q.2(B) Discuss the discounted cash flow techniques of capital budgeting. Explain their relative merits and demerits. 10M

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Q.3(A) Explain the concept of 'operating leverage', 'financial leverage', and 'combined leverage'. Show the impact of combined financial leverage on the EPS. 10M

OR

Q.3(B) Balaji Company limited is expecting an Operating Profit of Rs.1, 00,000 whose equity capitalization rate is 12.5%. Currently the company has a debt capital of 4, 00,000 at 8%. Calculate the value of the firm and cost of capital. 10M

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Q.4(A) New enterprise requires 80,000 units of a certain item annually. It costs Rs.4 per unit. The cost per purchase order is Rs.200 and the inventory carrying cost is 22 per cent per year. 10M

- a. What is the Economic Order Quantity (EOQ), if there is no quantity discount?
- b. What should the firm do if the supplier offers discounts as follows, viz.

Order Quantity	Discount (%)
4000 – 5,999	5
6,000 and above	10

OR

Q.4(B) Discuss the concept of 'working capital' and explain the factors influencing working capital requirement. 10M

Q.5(A) Describe situations that may lead to merger and explain various types of mergers 10M

OR

Q.5(B) "Good corporate governance creates a transparent set of rules and controls in which shareholders, directors and officers have aligned incentives." Comment. 10M

Q.6

**CASE STUDY**

10M

A company is expecting to have Rs.25,000 cash in hand on 1<sup>st</sup> April 2013 and it requires you to prepare an estimate cash position in respect of three months from April, 2013 to June, 2013, from the information given below:

Month	Sales	Purchase	Wages	Expenses
February	70,000	40,000	8,000	6,000
March	80,000	50,000	8,000	7,000
April	92,000	52,000	9,000	7,000
May	1,00,000	60,000	10,000	8,000
June	1,20,000	55,000	12,000	9,000

Additional Information:

- Period of credit allowed – 2 months.
- 25% of sale is for cash and the period of credit allowed to customer for 1 month.
- Delay in payment of wages and expenses 1 month.

Income Tax Rs.25,000 is to be paid in June, 2013.

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