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MBA/MBA (IB) (Sem. - 2nd)

FINANCIAL MANAGEMENT

SUBJECT CODE : MBA - 205 (2012 Batch)

Paper ID : [C0250]

Time : 03 Hours **Maximum Marks : 60**

Instruction to Candidates:

1) Attempt any Four questions from Section - A. Each question carries 5 marks.
2) Attempt Four questions from Section - B selecting one question from each unit. Each question carry 8 marks.
3) Section - C consists of one case study of 8 marks.

Section - A

Q1) How Preference shares are different from equity shares? Why equity shares are more popular?

Q2) Describe the scope of finance function.

Q3) Explain briefly CAPM.

Q4) What are the principles of capital budgeting?

Q5) How we analyze the implications of leverage?

Q6) What is permanent working capital? How it should be financed?

Section - B

Unit - I

Q7) What do you understand by Financial Management? Explain the various types of decisions which the finance manager has to take.

OR

Q8) Explain the various alternatives for raising long term finance. What are the pros and cons of each of the alternative?

Unit - II

Q9) What do you understand by the concept of time value of money? What is its significance? How the present value of different types of cash flows is done?

OR

Q10) Explain the various methods for incorporating risk and uncertainty in the capital budgeting process.

Unit - III

Q11) Critically explain the MM Hypothesis of capital structure? How the arbitrage is done through MM approach?

OR

Q12) Explain the various models of dividend policy? Do you think that they are relevant?

Unit - IV

Q13) What are the various credit terms of receivables management? Illustrate the impact of these terms on the assets and liabilities of the firm.

OR

Q14) Explain the various approaches of Working capital Management? What are the determinants of Working Capital Management?

Section - C

Case Study :

Waterflow Ltd. is specializing in the manufacturing of overhead water tanks and the company is presently located in North India. The management of this company has identified a niche market in south India which needs a particular size of water tank, not currently manufactured by the company. The company is therefore thinking of producing new type of overhead tank. The survey of the marketing department of the company reveals that the company could sell 120,000 tanks each year for six years at a price of Rs 700 each. The company's current facilities cannot be used to manufacture the new size tanks. Therefore it will have to buy new machinery. A manufacturer has offered two options to the company. The first option is that the company could buy four small machines with the capacity of manufacturing 30,000 tanks each at Rs. 15 Million each. The machine operation and manufacturing cost of each tank will be Rs.535. Alternatively; Waterflow can buy a larger machine with a capacity of 120,000 units per annum for Rs. 120 Million. The machine operation and manufacturing costs of each tank will be Rs.400. The company has a required rate of return of 12 per cent. Assume that the company does not pay any taxes.

Discussion Questions:

a) Which option should the company accept? Use the most suitable method of evaluation to give your recommendation and explicitly state your assumptions.

b) Why do you think that the method chosen by you is most suitable method in evaluating the proposed investment? Give the computation of the alternative methods.

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