

**ANURAG Engineering College**

(An Autonomous Institution)

I MBA II Semester Supplementary Examinations, February – 2025

**FINANCIAL MANAGEMENT**

(MASTER OF BUSINESS ADMINISTRATION)

**Time: 3 Hours****Max. Marks: 60****Section – A (Short Answer type questions)****(10 Marks)****Answer All Questions**

	Course Outcome	B.T Level	Marks
1. What is profit maximisation?	CO1	L1	1M
2. Why does money have time value?	CO1	L1	1M
3. Explain briefly the methods of raising finance?	CO2	L1	1M
4. What are the components capital budgeting?	CO2	L1	1M
5. Define financial leverage?	CO3	L1	1M
6. Explain the consequences of under-capitalisation?	CO3	L1	1M
7. What do you know about dividend?	CO4	L1	1M
8. What is Stock dividend?	CO4	L1	1M
9. What is Inventory control system?	CO5	L1	1M
10. Define cash management?	CO5	L1	1M

**Section B (Essay Questions)****Answer all questions, each question carries equal marks.****(5 x 10M = 50M)**

11. A) What do the critics of the goal of maximising shareholder wealth say? What is the rebuttal provided by the advocates of maximising shareholder wealth?

CO1 L3 10M

**OR**

B) Explain basic finance functions? How do they evolve risk-return trade off?

CO1 L2 10M

12. A) Abi Ltd company. is considering the purchase of Machine. Two machine P and Q, each costing Rs. 50,000, are available. Earnings after taxes are expected be as under:

CO2 L3 10M

Year	Machine P Rs.	Machine Q Rs.	Discount factor at 10% Rs.
1	15,000	5,000	0.9091
2	20,000	15,000	0.8264
3	25,000	20,000	0.7513
4	15,000	30,000	0.6830
5	10,000	20,000	0.6209

Evaluate the two alternatives according to NPV method (a discount of 10% is to be used). Which machine should be selected? Why?

**OR**

B) A firm has the following capital structure and after-tax costs for the different sources of funds used:

CO2 L3 10M

Source of Funds	Amount Rs.	After tax cost %
Debt	40,00,000	4.50
Equity Shares	60,00,000	11
Preference Shares	20,00,000	9
Retained Earnings	80,00,000	10
	2,00,00,000	

Calculate cost of weighted capital by using book value method

13. A) A firm has sales of Rs. 25,00,000/-, variable cost of Rs. 15,00,000/- and fixed costs of Rs. 5,00,000 and 10% Debentures of Rs. 10,00,000/-. Calculate the operating, Financial and combined leverages. CO3 L3 10M

OR

- B) Explain about capital structure? Describe Modigliani-Miller approach theory of capital structure. CO3 L2 10M
14. A) Given the following information about Sunrise industries Ltd. Show the effect of the dividend policy on the market price per share, using walter's model. EPS= Rs.8, Cost of capital (K) = 12%  
Assumed rate of return i) 15% ii) 10% iii) 12%. CO4 L3 10M

OR

- B) Discuss the factors which are determining dividend policy. CO4 L3 10M
15. A) From the following information you are required to estimate the net working capital. CO5 L3 10M

Particulars	Cost Per Unit
Raw materials	400
Direct labour	150
Overheads (excluding depreciation)	300
Total cost	800
<b>Additional information</b>	
Selling price	Rs 1000 per unit
Output	52,000 units per year
Raw material in stock	Average 4 weeks
Work in process (assume 50% completion stage with full material consumption)	Average 2 weeks
Finished goods in stock	Average 4 weeks
Credit allowed by suppliers	Average 4 weeks
Credit allowed to debtors	Average 8 weeks
Cash at bank is expected to be	Rs 50,000

Assume that production is sustained at an even pace during the 52 weeks of the year. All sales are on credit basis. State any other assumption that you might have made while computing.

OR

- B) Explain the Baumol's model of cash management? What are the factors affecting the choice of marketable securities? CO5 L3 10M