

QP Code

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Register Number

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VELALAR COLLEGE OF ENGINEERING AND TECHNOLOGY

(An Autonomous Institution, Affiliated to Anna University, Chennai)

Semester Examinations – April / May 2017

Regulations-2016

Programme: MBA

Semester: 2

Max. Marks: 100

Duration 3 Hrs

Course Code & Title: **16MST22 FINANCIAL MANAGEMENT**

Knowledge
Levels (KL)

K1 - Remembering
K2 - Understanding

K3 - Applying
K4 - Analyzing

K5 - Evaluating
K6 - Creating

Part A - Answer ALL Questions.

10 x 2 = 20 Marks

No.	Question	KL
1.	Indicate the meaning of 'Financial Management'.	K2
2.	Differentiate Annuity from annuity due.	K2
3.	List any two drawbacks that the Internal rate of return suffers from.	K2
4.	Specify the nature of Capital Budgeting.	K1
5.	State the meaning of EBIT.	K1
6.	Define Dividend.	K1
7.	List any two repercussions that the firm faces if it has excess working capital.	K2
8.	List out the issues of Working capital.	K1
9.	State any two important characteristics of preference share capital.	K2
10.	Identify any two characteristics of project financing that is different from corporate financing.	K2

Part B - Answer ALL Questions.

5 x 13 = 65 Marks

No	Question	Marks	KL
11.	a Explain the various Functions and Role of Financial Management.	13	K4
OR			
	b Compute the present value of the following cash flow at the end of five years using a discount rate of 13%	13	K5
	a) Rs. 7000 cash flow at the end of the each of the next five years		
	b) Rs. 7000 cash flow at the beginning of each of the next five years.		
	c) Rs 7000 annual cash flow received perpetually.		
12.	a One project of XYZ Ltd is not doing well and being considered for replacement. Two Mutually exclusive projects A and B have been proposed. The projects are expected to require Rs.200000 each , and have a estimated life of 5years and 4 years respectively. The company's required rate of return is 10%. Assume 30% corporate tax. The estimated cash flow before tax for the two projects are as follows	13	K5

Year	Project A (in Rs)	Project B (in Rs)
1	50,000	80,000
2	50,000	80,000
3	50,000	80,000
4	50,000	80,000
5	1,20,000	--

Calculate IRR and Whether the Projects are going to be accepted or Not.
OR

- b Explain the Principles and Techniques of Capital Budgeting. 13 K4
13. a From the following particulars PQR Company, Calculate EBIT and EPS. 13 K3
The Company's current sales revenue is Rs.1500000 and sales are expected to increase by 25%. Rs.900000 incurred on variable expenses for generating Rs.15 Lakhs sales revenue. The fixed cost is Rs.250000. The Company has Rs.20 Lakhs equity share Capital and Rs.20 Lakhs, 10 percent debt capital. Rs.10 per equity share and 50 percent Tax rate.

OR

- b Enumerate the nature of the factors that influence the dividend policy of a firm. 13 K3
14. a i. Elucidate the various determinants of working capital. 8 K3
ii. Differentiate Factoring and Bill Discounting. 5 K2

OR

- b The board of directors of Vinay Engineering Ltd has requested you to prepare a statement showing the working capital requirements for a level of activity at 1,50,000 units of production. The following information is available for your calculation. 13 K5

Particulars	Per Unit (In Rs)
Raw Materials	80
Direct labour	30
Overheads	65
Total	175
Profit	50
Selling price	225

- i) Raw material are in stock , on average for 1 month
- ii) Material in process (50% complete) on average for 1 month
- iii) Finished goods are in stock on average for 1 month
- iv) Credit allowed by supplier is 1 month
- v) Credit allowed to supplier is 2 month
- vi) Average lag in payment of wages is 1.5 weeks
- vii) Average lag in payment of overheads is 1 month
- viii) 20 percent of output is sold against cash.

Minimum cash balance is Rs. 50,000.

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|-----|---|--|----|----|
| 15. | a | i. Compare and contrast the Hire purchase financing and Lease financing. | 8 | K3 |
| | | ii. Briefly discuss the steps involved in the venture capital investment process. | 5 | K2 |
| OR | | | | |
| | b | Discuss the features of equity share and debenture as a source of long term finance. | 13 | K3 |

Part-C

1 x 15 = 15 Marks

16. Case Study:

In November 2015, Rolls Royce Holdings PLC (Rolls-Royce) issued its 5th profit warning in a span of 20 months. Warren East (East), CEO of Rolls-Royce said earnings were expected to be lower by £650 million in 2016 and the company was contemplating a dividend cut in the near future. The shares of Rolls-Royce plunged 20% to £536.5 on the same day, the biggest share price drop for the company in 15 years. East, appointed CEO of Rolls-Royce in July 2015, had been given a mandate by the management to turn the company around. He had planned to simplify Rolls-Royce's organizational model, streamline senior management, reduce fixed costs and add greater pace and accountability to decision making. He planned to preserve cash through savings measures in the near future. East was firm about his decision on job cuts however he was skeptical about the dividend decision.

Questions:

- | | | | |
|----|--|---|----|
| 1. | Summarize the relevance of dividend decision to value of the company. | 8 | K5 |
| 2. | Analyze the factors that lead to a change in dividend policy of the company. | 7 | K4 |
