Reg. No.________________ Name:__________________________

APJ ABDUL KALAM TECHNOLOGICAL UNIVERSITY

SECOND TRIMESTER MBA DEGREE EXAMINATION FEB 2019

MBA 25 FINANCIAL MANAGEMENT 1

Max. Marks: 60 Duration: 3 Hours

(Students are allowed to use Time Value Table in exam hall)

Part A

Answer all questions. Each question carries 2 marks

1. What is the ultimate objective of financial management? Explain
2. Analyze the situation of beta is one and zero for a security : When Beta is 1, security return and market return are moving together where as when beta is zero, there is no correlation
3. What is preemptive right? Explain its relevance in control aspects
4. What is the cost associated with retaining earnings? How can cost of retained earnings be computed?
5. As a winner of a lottery game you are given an option of Receiving Rs 1 Crore today or Rs 1.20 Crore after one year where your expected return is 20%. Which one you prefer? Why?

(5x2 marks = 10 marks)

Part B

Answer any 3 questions. Each question carries 10 marks

6. In the present corporate world, what are the roles of a finance manager? How are his functions related to that of other functional managers?
7. Risk is unavoidable in business. How is risk defined, computed and classified in corporate finance? How risk can be diversified?
8. Compare and contrast equity capital with preference capital as a source of capital
9. Omega Ltd has the following sources of capital in its capital structure
   a. 5,000 numbers , Rs 100, 11% debenture
   b. 10% preference shares worth of Rs. 1,00,000
   c. 40,000 Equity shares of Rs. 10 each

   d. Equity shares are quoted at Rs. 102 and it is expected that the company will declare a dividend of Rs. 10 per share next year which has a growth of 10 % per year. The company is in 50% tax bracket. Compute the weighted average cost of capital
10. Explain the importance of capital budgeting in business. Briefly narrate capital budgeting techniques.

(3x10 marks = 30 marks)

Part C

Compulsory question, the question carries 20 marks

11. Prakash Ltd, a manufacturing firm has appointed you as a financial analyst. You are asked to assess the viability of two mutually exclusive projects which company is interested to invest.
    1. Project Alpha needs Rs 48 cr and expected to be operational for five years. The expected cash flows in Crores are Rs 12 cr, Rs 14 cr, Rs 18 cr, Rs 20 cr and Rs 22 cr. Expected salvage value is Rs. 3 cr
    2. Project Omega, also needs Rs 48 cr which has an expected life of 4 years with no salvage value. Finance manager is optimistic about cash flows in crores of Rs 20 cr, Rs 22cr, Rs 24 Cr and Rs 26 Cr for next four years.
    3. The company is in 40% tax bracket and policy of the firm on depreciation is straight line method.
    4. Finance Manager is of the opinion that project Omega is riskier than Alpha, so needs to charge an expected rate of 13% for Omega where that of Alpha is only 12%
    5. Firm believes that NPV method is an appropriate tool for assessing long term investment proposal.

    You are required to submit a detailed report on which project needs to be selected with reasons there of

    (20 marks)

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