

Reg No.: _____

Name: _____

APJ ABDUL KALAM TECHNOLOGICAL UNIVERSITY

Eighth semester B.Tech degree examinations, September 2020

Course Code: IE482**Course Name: FINANCIAL MANAGEMENT**

Max. Marks: 100

Duration: 3 Hours

PART A*Answer any two full questions, each carries 15 marks.*

Marks

- 1 a) Distinguish profit maximisation and wealth maximisation approaches (5)
- b) The 0% interest credit sale of home appliances by an organisation is as follows (10)
- a) The items are sold on maximum retail price (MRP) without any discounts
- b) The customer can pay the cost in 5 equal monthly instalments with 0% interest directly to a financing agency
- c) The financing agency advances the cost of the item to shopkeeper @ 11% interest per annum
- The shop keeper gets items at 30% discount on MRP from distributors and usually he allows 10% discount to customer on cash purchases. If the MRP of washing machine is Rs 30000/- calculate the profit of the seller, financial institution and the customer if any.
- 2 a) How time series data shall be utilised in financial management explain with an example. (5)
- b) Compare the cash flow statements and fund flow statements. (4)
- c) How financial ratios are bench marked? List and demonstrate debt ratios and its interpretations. (6)
- 3 a) Compare the three major decisions making requirements of finance manager. (3)
- b) List and explain the format of major financial statements used for analysis of financial positions of organisations. (4)
- c) A house owner offers two options for renting his house a) Rent @ Rs 10000/- per month and advance Rs 20000/- b) An advance of Rs 12 lakhs with no monthly rent payment. The prevailing interest rate in market is 10%. Compare the schemes and suggest best option for the customer if the renting term is 6 months. (8)

PART B*Answer any two full questions, each carries 15 marks.*

- 4 a) What are the steps followed in calculating Weighted average cost of capital? (4)
 b) Calculate the weighted average cost of capital from the following data (8)

Type of capital	Number of items	Book value	Market price per each	Cost
		INR	INR	%
Bonds	6000	6000000	1100	6.2
common stock	65000	3000000	70	15.2
preferred stock	15000	600000	30	12.5
retained earnings	**	800000	**	13

- c) Distinguish between the perpetual debt and redeemable debts. (3)
- 5 a) Explain the dividend capitalization method in cost of equity calculations. (6)
 b) What are the assumptions of Modigliani Miller Model of Dividend theory? What is his basic postulate? How does the total value of shareholders affect when company 1. Pays dividends 2. Abstain from paying dividends according to this theory. (9)
- 6 a) Explain Gordon's model on dividend theories. What are the assumptions of this model? What are the major criticisms? (9)
 b) What are the common factors that affect dividend policy of organizations? (6)

PART C*Answer any two full questions, each carries 20 marks.*

- 7 a) Calculate the working capital requirement of an organization with 8 operating cycles per year with Minimum cash balance held by the organization INR 50 Crores. The cost of sales is 728 Crores per year. (10)
 b) How does the variation of operating cycle affect the working capital management? (4)
 c) What are the factors that affect the composition of working capital? (6)
- 8 a) Explain the concept of capital rationing. What are the factors affecting capital rationing. Define the hard capital and soft capital rationings. (10)
 b) A company invests INR 35000 for a new project and receives INR 8000, 9000, 20000, 14000, 16000, 15000 respectively in the next six years. Calculate the payback period. (10)
- 9 a) What are the advantages and disadvantages of IRR method of evaluation for capital budgeting? (6)
 b) Company ABC has the functional data of opening and closing balances of different current assets and current liabilities as follows. Calculate the operating (14)

cycle and cash cycle of the firm during this period.

	opening balance		closing balance
i	Raw materials stores	340	4000
ii	Work in progress	56	72
iii	Finished goods	630	1000
iv	accounts receivable	750	1100
v	accounts payable	2500	3000

a)	Raw material Purchases	11000
b)	Manufacturing expenses	1100
c)	depreciation	240
d)	customs and excise duties	35000
e)	selling and other expenses	4500
f)	sales	54000
