Code No: 762AC **R19**

JAWAHARLAL NEHRU TECHNOLOGICAL UNIVERSITY HYDERABAD
MBA II Semester Examinations, October/November-2020
FINANCIAL MANAGEMENT

Time: 2 hours **Max. Marks: 75**

Answer any five questions
All questions carry equal marks
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1.a) What are the basic financial decisions? How do they involve risk-return tradeoff?
b) Explain about discounting and compounding. [8+7]

2.a) "The profit maximization is not a operationally feasible criterion". Discuss.
b) Explain about risk-return tradeoff. [8+7]

3. Equipment A has a cost of 7,50,000 and net cash flow of Rs.2,00,000 per year for 6 years. A substitute equipment B would cost Rs.5,00,000 and generate net cash flow of Rs.140,000 per year for six years. The required rate of return of both equipment is 11%. Calculate the IRR and NPV for the equipment. Which equipment should be accepted and why? [15]

4. A firm finances all its investments by 40 percent debt and 60 percent equity. The estimated required rate of return on equity is 20 percent after-taxes and debt is 8 percent after-taxes. The firm is considering an investment proposal Rs.4,00,000 with the expected return that will last forever. What amount must the proposal yield per year so that the market price of the share does not change? [15]

5. The following information for Konark enterprises:

	Rs. in lakh
EBIT	1,120
PBT	320
Fixed cost	700

Calculate percentage change in earnings per share if sales are increased by 5 percent. [15]

6.a) Explain the factors that influence the planning of the capital structure.
b) What is informational content of dividend payments? How does it affect the share value? [7+8]

7. ABC Ltd sells goods in domestic market on a gross profit of 25 percent, not counting depreciation as a part of the „cost of goods sold‟. Its estimates for next year are as follows:

	Amount (Rs. in lakh)
Sales –Home at 1 month‟s credit	1200
Exports at 3 months credit, selling price 10 percent below Home Price	540
Materials used (suppliers extend 2 month‟s credit)	450
Wages paid, ½ month in arrears	360
Manufacturing expenses (cash) paid, 1 month in arrears	540
Depreciation on fixed assets	60
Administrative expenses, paid 1 month in arrears	120
Sales promotion expenses (payable quarterly- in advance).	60
Income-tax payable in 4 instalments of which one falls in the next financial year	150

The company keeps 1 month‟s stock of each of raw materials and finished goods and believes in keeping Rs.20 lakhs as cash. Assuming a 15 percent safety margin, ascertain the estimated working capital requirement of the company. [15]

8.a) Explain the techniques that can be used to accelerate the firm‟s collection.

b) How does cash budget help in planning the firm‟s cash flows? Discuss. [7+8]

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