SIDDHARTH INSTITUTE OF ENGINEERING & TECHONOLOGY: PUTTUR

Department of MBA- II Semester

SUB: FINANCIAL MANAGEMENT (16MB707)

Important Questions

Unit – I

1. What is financial management? Explain its nature and scope of financial management.
2. Define financial management. Describe the various important functions of finance.
3. Differentiate Profit maximization and wealth maximization
4. Define finance and explain the role of financial manager.
5. ‘Every Manager has to take three major decisions while performing the finance function’ briefly explain them.
6. What is meant by ‘Financial management’ Explain its importance.
7. What is Time value of money? Describe the relevance of time value of money in financial decision.
8. Explain why the concepts of risk and time value of money are important in making investment and financing decisions.
9. “ The financial analyst should take into account time value of money to take objective decision’ – Discuss
10. The dividend per share of a company has grown from Rs.3.5 to Rs.10.5 over past 10 years. The share is currently selling for Rs.75. calculate company’s capitalization rate.

Unit – II

1. How many approaches are there for estimating cost of equity?
2. What is capital budgeting? What steps are involved in the process of capital budgeting?
3. Define cost of capital. Explain its significance.
4. Explain the different methods of evaluating Investment projects with examples and their merits and demerits.

5. A company has to select one of the following projects:

Particulars	Project A (Rs)	Project B (Rs)
Cost	11,000	10,000
Cash Inflows:		
Year 1	6000	1,000
Year 2	2000	1000
Year 3	1000	2000
Year 4	5000	10,000

Use the internal rate of return method suggests which project is preferable.

6. How would you apply the cost of capital concept when projects with different risks are evaluated?

7. A company has to make a choice between buying of two machines. Machine X would cost Rs.1,00,000 and require cash running expenses of Rs.32,000 p.a. Machine Y would cost Rs.1,50,000 and its cash running expenses would amount to Rs.20,000 p.a. Both the machines have a life of 10 years with Zero salvage value. The company follows straight line method of depreciation and is subject to 50% tax on its income. The company's required rate of return is 10%. Which machines should it buy? Net present value of Rs.1 p.a. for 10 years @10% discount rate is Rs.6,1446.

8. Capital (WACC). Explain the role of book value weights and market value weights in calculating WACC.

9. The desired mix of the capital of a project along with the respective costs is shown below. Find the Weighted average cost of the capital.

Source	proportion of capital (Wi)	Cost (Ri)
Equity shares	0.18	20%
Preference shares	0.12	15%
Retained earnings	0.25	10%
Debt	0.45	8%

10. Rakesh corporation is previous dividend, Do, was Rs.12.00. Earnings and dividends are expected to grow at a rate of 10 percent thereafter. The required rate of return on Rakesh's stock is 15 percent. What should be the market price of Rakesh's stock now?

Unit – III

1. Determination of capital structure of a company is influenced by a number of factors' explain six such factors.
2. Define Capital structure. Explain fundamental principles governing capital structure.
3. Explain the different dividend payout methods. How do shareholders react to these methods?
4. A company has sales of Rs.10,00,000, variable cost of 70%, total cost Rs.9,00,000 and debt of Rs.5,00,000 @ 10% rate of interest and its tax rate is 40%. What are Financial, Operating leverages and Earnings after tax? If the firm wants to double up its EBIT, how much of a rise in sales would be needed on a percentage basis?
5. From the particulars of Ganesh Ltd, calculate operating and financial leverages. The company's current sales revenue is Rs.15,00,000 and sales are expected to increase by 25% Rs.9,00,000 are incurred on variable expenses for generating Rs.15,00,000 sales revenue. The fixed cost is Rs.20,00,000 10% debt capital. The face value of equity share is Rs.10 and tax rate applicable to this company is 50%
6. How do you design a capital structure of an organization? Explain the various operating leverage and revaluation of that organization's capital with an example.
7. Define Leverage. Explain the different types of Leverages.
8. Critically examine the assumptions underlying the irrelevance hypothesis of Modigliani and Miller regarding dividend distribution.
9. An analytical statement of Y Ltd., is as followos:

	Rs.
Sales	9,60,000
Varaiable cost	5,60,000
Revenue before FC	4,00,000
Fixed cost	2,40,000

Earnings before tax	1,60,000
Interest	60,000
Earnings before tax	1,00,000
Tax	50,000
Net income	50,000

Compute the degree of leverage: (i) Operating leverage (ii) Fiancial leverage (iii) The composite leverage from the above data.

10. Define Leverage. Explain the importance of EBIT and EPS analysis.

Unit –IV

1. Critically analyze the assumption of MM Hypothesis of irrelevance theory.

2. The following information is available is respect of a firm:

Capitalization rate (Ke) = 0.10

Earnings per Share (E) = Rs.10

Assume rate of return on investments (r); (i) 15 (ii)8 and (iii) 10.

Show the effect of dividend policy on the market price of shares, using Walter's model.

3. With an example compare and contrast Walter and Gordon's model on dividend policy. Which do you think to be the best? Justify your answer with scenarios.

4. Following data relate to a firm:

Share capital (at Rs.10 per share) Rs.12.5 crores

Reserves Rs.7.5 cr

Profit after tax Rs.1.85 cr

Dividend paid Rs.1.50 cr

P/E ratio Rs.13.33 cr

Determine the:

(1) Optimum payout ratio using Walter's model

(2) Determine the price earnings ratio of which dividend payout will have no effect on share price

5. Given the following information about Rama Industries Limited show the effect of the dividend policy on the market price per share, using Walter's model. EPS = Rs.8; Cost of capital = 12%; Assumed rate of return:

   (i) 15%

   (ii) 10%

   (iii) 12%

6. Explain the important aspects of dividend policy.
7. Prove the Miller and Modigliani hypothesis with the help of the arbitrage mechanism.
8. A low dividend payout ratio promotes the welfare of stock holders because long-term capital gains are treated more favorably than dividends income from the tax point of view. Discuss.
9. Explain the two propositions of Modigliani- Miller (MM) hypothesis on capital structure. How does MM prove their hypothesis?
10. A. What are the factors that determine the dividend policy of a company?

    b. Write short notes on:

    (i) Walter's Model

    (ii) Stable dividend policy

Unit - V

1. Explain the Operational efficiency in the determination of working capital requirements.
2. Discuss how the Working capital affects both the liquidity and profitability of a business.
3. What is meant by Working capital? How is it calculated? Explain the determinants of working capital requirements.
4. Discuss the various sources of working capital in detail

5. Explain the techniques that can be used to accelerate a firm's collection.
6. List and explain the determinants of working capital.
7. With examples discuss the techniques adopted by firm's to cut down their operating cycle.
8. Discuss the factors to be considered for deciding optimal level of inventory.
9. What is working capital? How could you measure the length of the operating cycle
10. What factors determine their size of the investment a company makes in Accounts receivables? Which of these factors are under the control of the Finance Manager?