SIDDHARTH INSTITUTE OF ENGINEERING & TECHONOLOGY: PUTTUR

Department of MBA- II Semester

SUB: FINANCIAL MANAGEMENT (20MB9009)

Course & Branch: MBA

Regulation: R20 **Year & Sem:** I-MBA& II-Sem

UNIT – I
THE FINANCE FUNCTION

1.	What is financial management? Explain nature and scope of financial management.	[(L1),(CO1),10M]
2.	Define financial management. Explain the various important functions of financial management.	[(L2),(CO1),10M]
3	Discuss "Profit maximization vs Wealth maximization"	[(L1),(CO1),10M]
4.	Define finance and explain the role of financial manager.	[(L1),(CO1),10M]
5.	Every Manager has to take three major decisions while performing the finance function. Briefly explain them.	[(L1),(CO1),10M]
6.	Discuss the role of Risk -return trade off with an example.	[(L3),(CO1),10M]
7.	Discuss the following concepts (a) Fixed assets (b) Dividend decision (c) Intangible Assets (d) Debenture (e) Agency problem.	[(L3),(CO1),10M]
8.	Share Holders Wealth maximization is the ultimate goal of the company. Discuss.	[(L4),(CO1),10M]
9.	Explain Investment decision and capital structure decision in detail.	[(L2),(CO1),10M]
10.	Write short notes on the following (a) Capital Market (b) Earning Per Share (c) Risk-Free rate (d) Risk- Premium (e) Money market	[(L3),(CO1),10M]

UNIT – II
THE INVESTMENT DECISION

<table>
<tr><td>1</td><td>Define investment. Discuss the process of investment</td><td>[(L2),(CO2),10M]</td></tr>
<tr><td>2</td><td>An individual’s time preference for money may be expressed as a rate. ‘Explain’</td><td>[(L2),(CO2),10M]</td></tr>
<tr><td>3</td><td>Write short notes on the following
(a) Future Value
(b) Present value
(c) Multi-period compounding</td><td>[(L3),(CO2),10M]</td></tr>
<tr><td>4</td><td>Explain different methods of evaluating Investment projects with examples and their merits and demerits.</td><td>[(L2),(CO2),10M]</td></tr>
<tr><td>5</td><td>Define Capital Budgeting and Explain the various methods of Capital Budgeting.</td><td>[(L2),(CO2),10M]</td></tr>
<tr><td>6</td><td>A company has to select one of the following projects:
<table><tr><th>Particulars</th><th>Project A (Rs)</th><th>Project B (Rs)</th></tr><tr><td>Cost</td><td>11000</td><td>10000</td></tr><tr><td>Cash Inflows:</td><td></td><td></td></tr><tr><td>Year 1</td><td>6000</td><td>1000</td></tr><tr><td>Year 2</td><td>2000</td><td>1000</td></tr><tr><td>Year 3</td><td>3000</td><td>2000</td></tr><tr><td>Year 4</td><td>5000</td><td>10,000</td></tr></table>Use the payback method to suggest a project.</td><td>[(L4),(CO2),10M]</td></tr>
<tr><td>7</td><td>XYZ Bank pays 12 percent and compounded interest quarterly. If Rs.1, 000 is deposited initially how much shell it grow after the end of five years?</td><td>[(L5),(CO2),10M]</td></tr>
<tr><td>8</td><td>Assume that a project requires an outlay of 50000 rupees and yields annual cash inflows of 10000, 12000, 14000, 15000 and 18000 respectively from year one through five. Calculate Accounting Rate of Return?</td><td>[(L5),(CO2),10M]</td></tr>
<tr><td>9</td><td>A project needs an investment of Rs.138500. The cost of capital is 12%. The net cash inflows are as under . Calculate the IRR and suggest whether the project should be accepted or not.
Year cash inflows (Rs)
1 30000
2 40000
3 60000
4 30000
5 20000</td><td>[(L4),(CO2),10M]</td></tr>
</table>

10	There are two projects X and Y, X requires an investment of Rs.26,000 while Y requires an investment of Rs. 38000. The cost of capital is 12%. on the basis of the following cash inflows required to state that which project should be accepted. Year Cash inflows Project X(Rs) Project Y(Rs) 1 9000 8000 2 7000 10000 3 6000 12000 4 5000 14000 5 4000 8000 6 4000 2000 7 3000 16000 8 3000 - Calculate NPV suggest which project should be accepted.	[(L5),(CO2),10M]

UNIT-III
WORKING CAPITAL MANAGEMENT & RATIO ANALYSIS

1.	Explain the concept of working capital.	[(L2),(CO3),10M]
2.	What is the concept of working capital cycle? What is meant by cash conversion cycle? Why are these concepts are important?	[(L1),(CO3),10M]
3.	Explain in detail about Gross operating cycle and Net operating cycle and its significance.	[(L2),(CO3),10M]
4.	How would you determine the optimum level of current assets ? Illustrate your answer.	[(L1),(CO3),10M]
5.	Write short notes on the following (a) Cash conversion cycle (b) Conservative approach (c) Factoring Services (d) Economic Order Quantity (EOQ) (e) ABC Inventory control system.	[(L4),(CO3),10M]
6.	Define Ratio and explain the various types of Financial Ratios for decision making.	[(L2),(CO3),10M]
7.	Explain the significance of Liquidity and Leverage Ratios.	[(L2),(CO3),10M]
8.	A firm sold goods worth rupees 5,00,000 and its gross profit is 20% of sales value. The inventory at the beginning of the year was rupees 16,000 and at the end of the year was rupees was 14,000. Compute inventory turnover ratio and also the inventory holding period	[(L2),(CO3),10M]
9.	A firms sales during the year was rupees 4,00,000 of which 60 percent were on credit basis. The balance of debtors at the beginning and end of the year were 25,000 and 15,000 respectively. Calculate debtors turnover ratio of the firm and also find debt collection period	[(L5),(CO3),10M]
10	Write short notes on the following (a) Quick Ratio (b) Current assets (c) Debt-Equity ratio (d) Inventory turnover ratio (e) Book value	[(L2),(CO3),10M]

UNIT –IV
CAPITAL STRUCTURE DECISIONS

1.	Critically examine capital structure irrelevant theories?	[(L3),(CO4),10M]
2.	Define Leverage. Explain the different types of Leverages.	[(L2),(CO4),10M]
3	A company has a total sales of Rs.10,00,000 variable cost of 70%, total cost Rs.9,00,000 and debt of Rs.5,00,000 at 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?	[(L5),(CO4),10M]
4	What are long term sources of finance? "Discuss"	[(L3),(CO4),10M]
5.	Define cost of capital and explain components of cost of capital	[(L3),(CO4),10M]
6.	How to calculate the cost of capital of debt cost of equity and cost of preference shares?	[(L2),(CO4),10M]
7.	Explain capital structure relevant theories.	[(L3),(CO4),10M]
8.	Explain the concept of EBIT –EPS analysis.	[(L2),(CO4),10M]
9.	A company has a total sales of Rs.1,00,000 variable cost of 60%, total cost Rs.90,000 and debt of Rs.46,000 @ 10% rate of interest and its tax rate is 35%. What are Financial, Operating leverages and Earnings after tax?	[(L5),(CO4),10M]
10.	Explain Net Income approach and Net Operating Income approach of capital structure.	[(L3),(CO4),10M]

UNIT –V
DIVIDEND DECISIONS

1.	Critically analyze the assumption of MM Hypothesis of irrelevance dividend theory.	[(L2),(CO5),10M]
2.	The following information is available in 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.	[(L5),(CO5),10M]
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.	[(L3),(CO5),10M]
4.	Given the following information about Rama Industries Limited. Show the effect of the dividend policy on the market price per	[(L5),(CO5),10M]

	share, using Walter's model. EPS = Rs.8; Cost of capital = 12%; Assumed rate of return: (i) 15% (ii)10% (iii)12%	
5.	Explain the significance of dividend theories	[(L2),(CO5),10M]
6.	A low dividend payout ratio promotes the welfare of stock holders because long-term capital gains are treated more favorable than dividends income from the tax point of view. Discuss.	[(L2),(CO5),10M]
7.	Explain the two propositions of Modigliani- Miller (MM) hypothesis on capital structure. How does MM prove their hypothesis.	[(L2),(CO5),10M]
8.	What are the factors that determine the dividend policy of a company?	[(L2),(CO5),10M]
9.	Explain the factors which affect dividend decision of a firm.	[(L2),(CO5),10M]
10.	Write short notes on the following (a) Buyback of shares (b) forms of dividends (c) Rights issue	[(L1),(CO5),10M]

CASE STUDIES

1) 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:

(iv) 15%

(v) 10%

(vi) 12%

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) A company has a total 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?

4) A company has to select one of the following projects. Use IRR method to suggest a project.

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