Reg. No.________________ Name:__________________________

APJ ABDUL KALAM TECHNOLOGICAL UNIVERSITY

SECOND TRIMESTER MBA DEGREE EXAMINATION JANUARY 2018

MBA 25 FINANCIAL MANAGEMENT I

Max. Marks: 60 Duration: 3 Hours

PART A

Answer all questions. Each question carries 2 marks

1. Briefly explain how the future value of an Annuity and Perpetuity is ascertained.
2. "Profit maximization leads to the wealth maximization of a company." Elucidate this statement.
3. Discuss the long term and short term sources of finance (any four each).
4. Distinguish Weighted Average Cost of Capital and Marginal Cost of Capital.
5. Illustrate the importance of calculating "beta" value of a security.

(5x2 marks = 10 marks)

PART B

Answer any 3 questions. Each question carries 10 marks

6. "Finance is the lifeblood of a business enterprise. It is the basic foundation of all kinds of economic activities." Comment on this statement and also explain how Finance is interrelated with the other functional areas of a business enterprise.
7. The following table gives the rate of return on stock of Apple Computers and on the market portfolio for five years.

Year	Return on the stock Apple computers (%)	Return on the Market portfolio (%)
1	-13	-3
2	5	2
3	15	8
4	27	12
5	10	7

What is the beta of the stock of Apple Computers?

8. Mr. Ram needs to start up a business of his own. He has managed to raise his capital from a pool of his colleagues and relatives. Ram would require more funds on his additional expenses and investments. What would be the various sources or schemes that you would suggest Ram in building up his capital?
9. a) A company raised preference share capital of Rs. 1,00,000 by the issue of 10% preference share of Rs. 10 each. Find out the cost of preference share capital when it is issued at (i) 10% premium, and (ii) 10% discount.
   b) A company has 10% redeemable preference share which are redeemable at the end of 10th year from the date of issue. The underwriting expenses are expected to be 2%. Find out the effective cost of preference share capital.
   c) The entire share capital of a company consist of 1,00,000 equity share of Rs. 100 each.

Its current earnings are Rs. 10,00,000 p.a. The company wants to raise additional funds of Rs. 25,00,000 by issuing new shares. The flotation cost is expected to be 10% of the face value. Find out the cost of equity capital given that the earnings are expected to remain same for coming years.

10. The cost of a plant is Rs. 5,00,000. It has an estimated life of 5 years after which it would be disposed off (scrap value nil). Profit before depreciation, and taxes is estimated to be Rs. 1,75,000 p.a. Tax rate is 30%.
    a) Find out the yearly cash flow from the plant.
    b) Calculate the pay back period.

(3x10 marks = 30 marks)

PART C

Compulsory question, the question carries 20 marks

11. A firm whose cost of capital is 10% is considering two mutually exclusive projects X and Y, the details of which are:

Cost	Year	Project X	Project Y
Cash flow	0	-70,000	-70,000
	1	10,000	50,000
	2	20,000	40,000
	3	30,000	20,000
	4	45,000	10,000
	5	60,000	10,000

Compute the Net Present Value and Profitability index at 10% and Internal Rate of Return of the two projects. Also, comment on the acceptance of the project.

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