

Reg No. \_\_\_\_\_ Name \_\_\_\_\_

**APJ ABDUL KALAM TECHNOLOGICAL UNIVERSITY**  
**THIRD TRIMESTER MBA DEGREE EXAMINATION APRIL 2018**  
**32 FINANCIAL MANAGEMENT II**

Max. Marks: 60

Time: 3 Hours

**PART A**

*Answer ALL Questions. Each question carries 2 marks.*

1. What is trading on equity principle?
2. What are the important theories of capital structure?
3. Explain the term circular flow concept under working capital management.
4. How will you determine market price per share of listed companies under Prof. Walter's approach?
5. Write about two motives of merger.

**PART B**

*Answer ANY 3 Questions. Each question carries 10 marks.*

6. a) What is net operating income approach theory of capital structure? (3)  
 b) What are the basic assumptions of the above approach? (2)  
 c) The Bharat Ltd. a manufacturing company expects a net operating income for the year ended 31-3-2018 as Rs.3,00,000. It has Rs.10,00,000, 10% debentures (fully secured). The overall cost of capital rate is 12.5%.  
 Calculate the value of the firm and value of equity under net operating income approach. (5)
7. a) Distinguish between financial leverage and operating leverage (any five points).(5)  
 b) Following information is extracted from the records of Novelty company limited which is engaged in manufacturing of auto spare parts for the year ended 31-3-2018.
 

i. Installed capacity [100%]	10,000.units.
ii. Actual capacity utilised [75%]	7,500.units.
iii. Other details;	
Selling price per unit	Rs. 300.
Variable cost per unit	60% [on selling price].
Fixed cost	Rs.7,50,000.

 Calculate;
  - I Operating leverage of the company and comment the result. (2)
  - II Break even point of sales (2)
  - III Margin of safety. (1)
8. What are the factors which will govern working capital requirement? [Any ten factors]
9. Briefly explain the concept of irrelevance and relevance theory of dividend.
10. a) Explain corporate restructuring. (3)  
 b) What are the purposes of corporate restructuring? (2)  
 c) What are the different types of corporate restructuring? (5)

**PART C*****Compulsory question. 20 marks.***

11. The Management of Sunrise Ltd. has called for statement showing the working to finance level of activity of 10,000 units of output for the year. The cost structure for the above mentioned activity is detailed below:

<u>PARTICULARS</u>	<u>PER UNIT [Rs].</u>
Raw material.	80.
Labour.	48.
Overhead.	32.
Total cost	160.
Profit.	20.
Selling price.	180.

Additional information;

- i. Past experience indicates that Raw material in stock on an average for two months.
- ii. Work-in-process [100% complete in regard to raw material and 50% for labour and overhead] with approximately to be half a month production.
- iii. Finished goods remain in warehouse on an average for 30 days.
- iv. Suppliers of raw materials extend a 30 days credit.
- v. Credit period allowed to debtors 60 days.
- vi. A minimum cash balance of Rs. 50,000 is expected to be maintained.
- vii. The production pattern is assumed to be even during the year.

Answer the following questions:

HINT:

Assume 360 days in a year for computation purpose only. Make your assumptions wherever necessary.

- a) Compute the working capital requirement of the company for the year 2018. (10)
- b) What are the factors affecting Capital Structure decision of a firm? (10)

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