Reg No.:_______________ Name:__________________________

APJ ABDUL KALAM TECHNOLOGICAL UNIVERSITY

Second Semester MBA Degree Examination June 2022 (2020 scheme)

Course Code: 20MBA104

Course Name: FINANCIAL MANAGEMENT

Max. Marks: 60 Duration: 3 Hours

PART A

Answer all questions. Each question carries 2 marks Marks

1 What is principle of value additivity? (2)

2 Make out EBIT –EPS analysis. (2)

3 What do you mean by weighted average cost of capital? (2)

4 State the motives of holding inventory. (2)

5 What is home-made dividend? (2)

(5x2 marks = 10 marks)

PART B

Answer any 3 questions. Each question carries 10 marks

6 Discuss the relationship of financial management with other disciplines? (10)

7 The following is the data regarding two companies A and B belonging to the same risk class. (10)

Particulars	A Ltd	B Ltd
Number of ordinary shares	1,00,000	1,50,000
8% Debentures	50,000	Nil
Market Price per share	1.30	1.00
Profit before interest	20,000	20,000

All profits after paying debenture interest are distributed as dividends.

You are required to explain how under MM approach, an investor holding 10% of shares in company A will be better off, in switching his holding to company B.

8 Elucidate the different methods of ranking investment proposals. (10)

9 Discuss in detail about the different factors influencing receivables. (10)

10 Explain the Modigliani and Miller irrelevance theory with supportive examples? (10)

(3x10 marks = 30 marks)

Compulsory Question. 20 marks.

11 Queens Ltd furnishes the following particulars (20)

Particulars	Amount
Earnings Before Interest and Tax	2,80,000
Less: Interest on Debentures @10%	40,000
Profit Before Tax	2,40,000
Less: Income Tax @50%	1,20,000
Profit After Tax	1,20,000
Number of equity shares (Rs 10 each)	30,000
EPS	4
Market Price Per share	40
P/E Ratio	10

The company has free reserves of Rs 7,00,000 and needs Rs 4,00,000 further for expansion, which is expected to earn the same rate as funds already invested. You are informed that a debt equity ratio (debt to total funds) higher than 32% will push the P/E ratio down to 8 and raise the interest rate on additional borrowings (debentures) to 12%. Compute the probable price of the share;

a) if the additional funds are raised as debt and
b) if the amount is raised by issuing equity shares at ruling market price of Rs 40 per share.

(20 marks)

****