INDIAN MARITIME UNIVERSITY
(A Central University, Govt.of India)

May/June 2015 End Semester Examinations

SEMESTER – II, M.B.A (INTERNATIONAL TRANSPORTATION AND LOGISTICS MANAGEMENT)

FINANCIAL MANAGEMENT (T 1202)

Date:06.06.2015 Max.Marks:60
Time:-3 Hrs Pass Marks:30

SECTION – A (12x1=12 Marks)

Answer ALL the questions. All question carry equal Marks

1. The basic consideration of financial decision-making is:
   a) Risk-return trade off
   b) Profitability-liquidity trade off
   c) Profitability – solvency trade off
   d) All of the above

2. The _________ decision involves determining the appropriate make-up of the right-hand side of the balance sheet.
   a) asset management
   b) financing
   c) investment
   d)

3. The period during which the original cost of project is fully recovered through its earnings is known as:
   a) Recovery period
   b) Gestation period
   c) Payback period
   d) Cut off period

4. How are earnings per share calculated?
   a) Use the income statement to determine earnings after taxes (net income) and divide by the previous period's earnings after taxes. Then subtract 1 from the previously calculated value.
   b) Use the income statement to determine earnings after taxes (net income) and divide by the number of common shares outstanding.
   c) Use the income statement to determine earnings after taxes (net income) and divide by the number of common and preferred shares outstanding.
   d) Use the income statement to determine earnings after taxes (net income) and divide by the forecasted period's earnings after taxes. Then subtract 1 from the previously calculated value.

5. Compounding technique is:
   a) Same as discounting technique
   b) Slightly different from discounting technique
   c) Exactly opposite of discounting technique
   d) none of the above

6. A concept that implies that the firm should consider issues such as protecting the consumer, paying fair wages, maintaining fair hiring practices, supporting education, and considering environmental issues
   a) Financial management
   b) Profit maximization
   c) Agency theory
   d) Social responsibility

7. The value stated on the face of the bond is termed as:
   a) Par value
   b) Paid up value
   c) Issue price
   d) Call up value

8. Corporate governance success includes three key groups. Which of the following represents these three groups?
   a) Suppliers, managers, and customers
   b) Board of Directors, executive officers, and common shareholders
   c) Suppliers, employees, and customers
   d) Common shareholders, managers, and employees.

9. __________ is concerned with the maximization of a firm's stock price.
   a) Shareholder wealth maximization
   b) Profit maximization
   c) Stakeholder welfare maximization
   d) EPS maximization

10. When a company issues shares to the existing shareholders before the public issue, such shares are termed as:
    a) Bonus shares
    b) Common shares
    c) Preferential shares
    d) Rights shares

11. ______ Capital structure means an ideal combination of borrowed and owned capital that may attain the marginal goal.
    a) Preference Share
    b) Optimum
    c) Equity
    d) Debt

12. ______ refers to the amount invested in various components of current assets.
    a) Temporary working capital
    b) Net working capital
    c) Gross working capital
    d) Permanent working capital.

SECTION – B **(5x4=20 Marks)**

Answer ANY five of the following questions. Each answer should not exceed 200 words.

13. A Ltd., is considering a project costing Rs. 2, 00,000 with a scrap values of Rs. 40,000. The project returns a stream of income before depreciation and taxes during its live of five years as follows:

Period	1	2	3	4	5
Income (Rs.)	20,000	24,000	28,000	32,000	40,000

Assume a tax rate at 50% and depreciation on straight –line basis. Compute the Accounting Rate of Return for the project.

14. Prepare an estimate of working capital requirement from the following information of trading concern:

a. Project annual sales	1,00,000 Units
b. Selling price	Rs. 8 per unit
c. % of net profit on sales	25%
d. Average Credit period allowed to customers	8 weeks
e. Average Credit period allowed by suppliers	4 weeks
f. Average Stock holding in terms of sales requirement	12 weeks
g. Allow 10% for contingencies .	

15. What are the objectives of financial management?. Explain its scope.

16. Define the term Capital Structure. Explain the importance of capital structure planning.

17. What aspects of financial management make it international?

18. What is Zero- base Budgeting? How does it differ from traditional budgeting?

19. A company issues equity shares of Rs. 10 each at a premium of 50%. The company incurs 2% of the issue price as expenses. If the rate of dividend expected by the equity shareholders is 20% , calculate the cost of Equity Capital.

SECTION – C **(4x7=28 Marks)**

Question No. 20 is compulsory. Answer ANY THREE of the remaining questions

Each answer should not exceed 500 words.

20. A company is considering two mutually exclusive projects. Both require initial cash out lay of Rs. 10,000 each and have a life of 5 years. The company's required rate of return is 10% and pays tax at a 50% rate. The projects will be depreciated on straight- line basis. The before tax cash flows expected to be generated by the projects are as follows:

Before tax cash flows in Rs.

Year	1	2	3	4	5
Project-A	4,000	4,000	4,000	4,000	4,000
Project –B	6,000	3,000	2,000	5,000	5,000

Calculate for each project: i. The Payback, ii. The accounting rate of return, iii. The Net present value and profitability index and iv. The internal rate of return. Which project should be accepted and why?

21. From the following information you are required to prepare working capital requirement statement of Swathi Company:

i.	Normal production	2,40,000 units per year
ii.	Raw material in stock	2 months
iii.	Processing period	1 month
iv.	Finished goods	3 months
v.	Credit allowed to customer	3 months
vi.	Selling price per unit	Rs. 20
vii.	Expected ratio of cost to selling price:	
	Raw material	60%
	Direct wages	10%
	Overheads	20%
	Profit on sales	10%.

22. Explain the factors that influence the dividend policy of a company.

23. Compute cost of debt capital (Kd) for the following.
    a. X ltd., issues Rs. 50,000 8% debentures at par. The tax rate applicable to the company is 50%. Compute the cost of debt capital.
    b. Y ltd., issues Rs. 50,000 8% debentures at a premium of 10%. The tax rate applicable to the company is 60%. Compute cost of debt capital.
    c. A ltd., issues Rs. 50,000 8% debentures at a discount of 5%. The tax rate is 50%. Compute the cost of debt capital.
    d. B ltd., issues Rs. 1, 00,000 9% debentures at a premium of 10%. The costs of flotation are 2%. The tax rate applicable is 60%. Compute cost of debt –capital.

24. What are the different sources of long-term finance available to a company?

25. Discuss the various issues involved in domestic project appraisal.

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