

2009-JAWAHARLAL NEHRU TECHNOLOGICAL UNIVERSITY
MBA II SEMESTER SUPPLEMENTARY EXAMINATION
FINANCIAL MANAGEMENT

JANUARY-09

TIME-3HOUR
MARKS-60

ANSWER ANY FIVE QUESTIONS ALL QUESTIONS CARRY EQUAL MARKS

[12*5=60 MARKS]

1. What is an annuity? Give some examples of annuities. Distinguish between an annuity and a perpetuity.
2. How should working capital and sunk costs be treated in analyzing investment opportunities? Explain with suitable example.
3. In what ways the cost of debt similar to the cost of preference capital? Are there any differences?
4. Company A and Company B are in the risk class and are identical in every respect except that company A is levered while company B is not. Company A has Rs.30 lakhs 5 per cent debentures outstanding in its capital structure. Both the companies earn 10 per cent return before interest and taxes on their total assets of Rs,50 per cent and an equity capitalization rate of 10 per cent for both the companies.
 - (a) Calculate the value of company A and Company B as per the Net Income (N1) approach.
 - (b) Calculate the value of each company using the Net Operating income (NOI) approach
 - (c) Using the NOI approach, calculate the after tax weighted average cost of capital, k_o for both the companies. Which company has an optimum capital structure, why? The company is in the 50% tax bracket. Determine EPS of the company. What would be the change in EPS of the company if earnings increased by 25% and decreased by 20%?
5. Discuss the basic assumptions of Walter's Model and examine its relevance to the present global corporate environment.
6. What is planning of working capital? How do you plan the working capital requirement in a given situation in the global environment?
7. What is optimum cash balance? How do you determine the optimum cash balances in a company?
8. State the factors for the control of inventories in a manufacturing firm.