

M.B.A. Semester—II Examination
FINANCIAL MANAGEMENT
Paper—MBA/204

Time : Three Hours]

[Maximum Marks : 70

N.B. :— (1) Attempt **ALL** questions.

(2) Figures to the right indicate marks.

(3) Annuity table showing future value, present value and scientific calculator is permitted.

SECTION—A

1. (a) The scope of financial management include four types of finance decisions :

- (1) Financing Decision
- (2) Investment Decision
- (3) Dividend Decision
- (4) Liquidity Decision.

You need to explain each decision in detail with examples.

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OR

(b) What is meant by the term 'Leverage' ? What are its types ? With what type of risk is each leverage generally associated ?

14

SECTION—B

2. (a) What is the difference between compounding technique and discounting technique ?

7

(b) A company wishes to determine the optimal capital structure. From the following selected information supplied to you :

Situation	Debt	Equity	After Tax Cost of Debt % (k_d)	Cost of Equity % (k_e)
1	Rs. 4,00,000	1,00,000	9	10
2	2,50,000	2,50,000	6	11
3	1,00,000	4,00,000	5	14

7

OR

(c) Explain the Net Income (NI) and Net Operating Income (NOI) approach of capital structure with their assumptions.

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(d) The information relating to the three loan alternatives to finance the purchase of a used car is summarised below :

Loan	Principle	Annual Payment	Term
A	Rs. 5,00,000	Rs. 1,35,281	5 years
B	5,00,000	1,54,321	4
C	5,00,000	2,01,045	3

Which loan should be taken ?

7

3. (a) Explain short term financing instruments; for which type of financial requirement short term sources are useful ? 7
- (b) A firm's cost of equity is 16 %, the average tax rate of shareholders is 40 % and it is expected that 3 % is brokerage cost that shareholders will have to pay while investing their dividends in alternative securities. What is the cost of retained earnings ? 7

OR

- (c) The cost of preference capital is generally lower than the cost of equity. State the reasons. 7
- (d) PQR and Co. has the following capital structure as on Dec. 31, 2015.

Rs.

Equity Share Capital	5,00,000
9 % Preference Shares	2,00,000
10 % Debentures	3,00,000

The equity shares of the company are quoted at Rs. 102 and the company is expected to declare a dividend of Rs. 9 per share for the next year. The company has registered a dividend growth rate of 5 % which is expected to be maintained.

Assuming the tax rate applicable to the company at 5 %, calculate the weighted average cost of capital. 7

SECTION—C

4. (a) Define and differentiate between IRR and ARR methods of capital budgeting. 7
- (b) Describe the various concepts of valuation. How does the valuation concept help in decision making ? 7

OR

- (c) What is capital budgeting ? Briefly discuss the technique of capital budgeting. 7
- (d) Explain and illustrate the Yield to Maturity (YTM) on a bond. State the difference between YTM and company rate. 7

SECTION—D

5. From the following projections of XYZ and Ltd. for the next year, you are required to determine the working capital required by the company.

Annual Sales Rs. 14,40,000

Cost of production (including depreciation of Rs. 1,20,000) Rs. 12,00,000

Raw material purchase Rs. 7,05,000

Monthly expenditure Rs. 30,000

Estimated opening stock of Raw Material Rs. 1,40,000

Estimated closing stock of Raw Material Rs. 1,25,000

Inventory Norms :

Raw Materials – 2 Months

Work in Process – ½ Month

Finished Goods – 1 Month

The firm enjoys a credit of half a month on its purchase and allows one month credit to its debtors. On sales orders, the company receives an advance of Rs. 15,000. You may assume that production is carried out evenly throughout the year and minimum cash balance desired to be maintained is Rs. 35,000. 14