Printed Pages : 2 **Roll No.** | | | | | | | | | | | **MB124**

MBA
THEORY EXAMINATION (SEM–II) 2016-17
FINANCIAL MANAGEMENT

Time : 3 Hours *Max. Marks : 100*

Note : *Be precise in your answer. In case of numerical problem assume data wherever not provided.*

SECTION – A

1. Explain the following: **10 x 2 = 20**

(a) Relationship between risk and return
(b) Compound value
(c) Cash management
(d) Share Spilt
(e) Business Finance
(f) EPS
(g) Debt
(h) Operating Cycle
(i) Walter's model
(j) Contingent Decisions

SECTION – B

2. Attempt any five of the following questions: **5 x 10 = 50**

(a) Who is financial manager? State all the functions of financial manger.
(b) Discuss the importance of capital budgeting. Highlight all the techniques used in capital budgeting.
(c) What is dividend? Discuss the various determinants regarding the dividend decisions.
(d) Discuss all the factors for requirement of working capital in any business firm.
(e) Explain the importance of leverage for business decisions. Highlight the role of financial leverage.
(f) Why calculating of cost of capital is important for firm? State the significance of WACC.
(g) calculate the degree of operating leverage , degree of financial leverage and degree of combined leverage for the following firms: (15 marks)

Particulars	**Firm x**	**Firm y**	**Firm z**
Output	60000	15000	10000
Fixed cost	7000	14000	1500
Variable cost per unit	0.20	1.50	0.02
Interest on borrowed funds	4000	8000	---
Selling price per unit	0.60	5	0.10

(h) The project will cost Rs. 50000 and will have life and no salvage value. Tax rate is 50% .The Company follows straight line method of depreciation. the net earnings before depreciation and tax is as follows:

Year	1	2	3	4	5
EBDT	10000	11000	14000	15000	25000

Evaluate the project using:
(i) Payback period (ii) ARR

SECTION – C

Attempt any two of the following questions: **2 x 15 = 30**

3 Discuss the various functions of financial management?

4 What is capital structure? Explain the various theories of capital structure.

5 ABC is considering the possibility of raising Rs. 500000 by issuing equity shares, preference shares and debentures. The book value and market value are as follows:

Sources	**Book value**	**Market value**
Equity shares	200000	300000
Preference shares	100000	120000
Debentures	200000	180000
	500000	600000

The following costs are expected to be incurred on the above mentioned issues of capital. Corporate tax is 50%.

(i) The company equity share is currently selling for Rs. 150. It is expected that the company will pay a dividend of Rs. 8 per share at the end of next year which is expected to grow at a rate of 7%. The company has to incur Rs. 5 as floatation cost.

(ii) The 11 % rs.100 face value preference share will be sold for rs.125. However, the company will have to pay Rs. 6 per preference share as underwriting commission.

(iii) The company can sell a 10 year Rs. 500 face value debentures with a 9% rate of interest. An underwriting fee of 2 percent on issued price would be incurred to issue the debentures.

Compute the weighted average cost of capital using:

(i) Book value weights

(ii) Market value weights.