

NEW

2015

M B A

2nd Semester Examination

FINANCIAL MANAGEMENT

PAPER—MBA-201

Full Marks : 100

Time : 3 Hours

The figures in the right-hand margin indicate full marks.

Candidates are required to give their answers in their own words as far as practicable.

Illustrate the answers wherever necessary.

Write the answers to Questions of each Half in separate books.

(First Half)

(Marks : 50)

1. Answer any *four* of the following questions : 4×5
 - (a) Describe 'Financial Management' in terms of the three major decision areas that confront the financial manager.
 - (b) What is 'Agency Problem'? How does it arise? How can you address the problem as the Finance Manager of a company? 1+1+3
 - (c) Briefly explain how 'Retained Earnings' and 'Depreciation' may be the major internal sources of business finance.

(Turn Over)

- (d) 'Cost of capital is not a cost as such ; it is rate of return that a firm seeks to earn from its projects.' Explain the statement.
- (e) How can you determine Cost of Equity Capital in a growth company ?
- (f) Explain the concept of Time value of money.

2. Answer any *two* of the following questions : 2×10

- (a) The Balance Sheet of ABC Ltd. reveals the following information :

Sources of Funds	Amount (in million Rs.)
Equity Capital (Shares of Rs. 100 each)	500
14% Debentures	1,500
15% Term Loans	1,000
Total	3,000

Calculate :

- (i) The Weighted Average Cost of Capital of the company assuming a policy of paying a constant dividend at the rate of 20% p.a.
- (ii) Will it make any difference in the Overall Cost of Capital computed in (i) above if the current market price of the share is Rs. 150 ? $4+6$
- (b) From the following information available for four firms, you are required to calculate (i) EBIT, (ii) EPS, (iii) Degree of Operating Leverage, (iv) Degree of Financial Leverage, and (v) Degree of Combined Leverage : $3+2+2+2+1$

Firms	A	B	C	D
Sales (in units)	5,000	4,000	3,000	2,000
Selling price per unit (Rs.)	15	20	30	25
Variable cost per unit (Rs.)	10	15	25	20
Fixed cost per annum (Rs.)	10,000	5,000	5,000	4,000
Interest (Rs.)	5,000	3,000	4,000	2,000
Tax (%)	40	40	40	40
Number of equity shares	600	1,200	500	300

- (c) (i) What is Cost of Capital ?
- (ii) The price of a company's share is Rs. 100 and the value of growth opportunities is Rs. 25. If the company's capitalization rate is 15%, what is the price-earning ratio ? How much is EPS ?
- (iii) Narrate the significance of Cost of Capital.
- 2+4+4

[Internal Assessment : 10]

(Second Half)

(Marks : 50)

3. Answer any four of the following questions : 4×5
- (a) Establish the relationship between NBCR and BCR.
- (b) What are the various components of working capital ?

- (c) Briefly explain the factors affecting the dividend policy of a company.
- (d) Differentiate between Gross Working Capital and Net Working Capital. (*Give illustration*)
- (e) List four advantages of payback period method.
- (f) 'The genesis of business risk lies in the cost structure of a company' — Explain.
4. Answer any *two* of the following questions : 2×10
- (a) A company whose capitalization rate is 10% has outstanding shares of 25,000 selling at Rs. 100 each. The firm is expecting to pay a dividend of Rs. 5 per share at the end of the current financial year. The company's expected net earnings are Rs. 2,50,000 and the new proposed investment requires Rs. 5,00,000. Prove that using MM model, the payment of dividend does not affect the value of the firm.
- (b) Briefly describe the factors which affect the requirement of working capital of a firm.
- (c) (i) Explain the position of Modigliani and Miller on the issue of optimum capital structure, ignoring the corporate income taxes.
- (ii) Use an illustration to show how homemade leverage by an individual investor can replicate the same risk and return as provided by the levered firm. 4+6

[Internal Assessment : 10]
