# MBA 2nd Semester Examination, 2022

## FINANCIAL MANAGEMENT

PAPER – MBA-201(Old)

*Full Marks* : 80

*Time* : 3 hours

*The figures in the right hand margin indicate marks*

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

**A.** Answer any *eight* questions from the following : 5 × 8

1. Briefly discuss the Internal Rate of Return (IRR) method for Capital Budgeting decision. 5

2. Write a short note on participative preference share. 5

( *Turn Over* )

3. Write a short note on Commercial Paper. 5

4. Briefly discuss the Net Present Value technique for Capital Budgeting decision. 5

5. The initial cash outlay of a project is Rs. 50,000 and it generates cash inflows of Rs. 20,000, Rs. 15,000, Rs. 25,000 and Rs. 10,000 in four years. Using the concept of time value of money appraises profitability of the proposed investment assuming 10% rate of discount. 5

6. What are the components of the cost of capital ? Wha is the cost of retained earnings ? 3 + 2

7. What is a convertible debenture ? State the pros and cons of financing by convertible debentures in India. 2 + 3

8. What is an EBIT-EPS analysis ? Explain the usage of EBIT-EPS analysis. 2 + 3

9. Briefly discuss the different motives behind the merger. 5

10. What are the different approaches to financing of working capital requirements ? Explain in detail. 5

11. What do you mean by mutually exclusive project ? How do they differ from accept-reject projects ? 2 + 3

12. Explain the term "trading on equity". Why, when and how it can be used by a business organization ? 2 + 3

B. Answer any *four* questions from the following : 10 × 4

13. 'The profit maximization is not an operationally feasible criterion'. Do you agree ? Illustrate your views. 10

14. Briefly discuss the three important decision-making areas of Financial Management. 10

15. Discuss the important determinants of working capital with suitable examples. 10

16. Give a critical appraisal of the Traditional Approach and the Modigliani-Miller Approach to the theory of capital structure. 10

17. A proforma cost sheet of a company provides the following particulars :

| Particulars | Amount per unit(Rs.) |
|---|---|
| Elements of cost : | |
| Raw materials | 80 |
| Direct labour | 30 |
| Overhead | 60 |
| Total Cost | 170 |
| Profit | 30 |
| Selling price | 200 |

The following further particulars are available :

Raw materials in stock, on average, one month ; Material in progress (completion stage, 50 per cent), on average, half a month ; Finished goods in stock, on average, one month.

Credit a allowed by suppliers is one month ; Credit allowed to debtors is two months ; Average time-lag in payment of wages is 1.5 weeks and one month in overhead expenses; one-fourth of the output is sold against cash ; cash in hand and at bank is desired to be maintained at Rs. 3,65,000.

You are required to prepare a statement showing the working capital needed to finance a level of activity of 1,04, 000 units of production. You may assume that production is carried on evenly throughout the year and wages and overhead are accrue similarly. For calculation purposes, 4 weeks may be taken as equivalent to a month. 10

18. A company needs Rs. 5,00,000 for construction of a new plant. The following three financial plans are feasible :

(*i*) The company may issue 50,000 ordinary shares at Rs. 10 per share.

(*ii*) The company may issue 25,000 ordinary shares at Rs. 10 per share and 2,500 debentures at Rs. 100 denominations bearing a 8 percent rate of interest.

(*iii*) The company may issue 25,000 ordinary shares at Rs. 10 per share and 2,500 preference shares at Rs. 100 per share bearing a 8 per cent rate of dividend.

If the company's earnings before interest and taxes are Rs. 10,000, Rs. 20,000, Rs. 40,000, Rs. 60,000 and Rs. 1,00,000, what are the earnings per shares under each of the three financial plans ? Which alternative would you recommend and why ? Assume a corporate tax rate of 50 percent. 10

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