

(Following Paper ID and Roll No. to be filled in your Answer Book)

PAPER ID : 270204

Roll No.

--	--	--	--	--	--	--	--	--	--

## MBA

(SEM. II) THEORY EXAMINATION 2013-14

### FINANCIAL MANAGEMENT

Time : 3 Hours

Total Marks : 100

Note :- Attempt questions from each Section as per instructions.

#### SECTION-A

1. Attempt all parts of this question in 50 to 75 words :

(2×10=20)

- (a) Explain Wealth Maximisation.
- (b) What is Time Value of Money ?
- (c) What are Debentures ? What are the types of debentures ?
- (d) What are the different capital budgeting decisions ?
- (e) What are retained earnings ? Is there a cost to retained earnings ?
- (f) What are bonus shares ? Why do companies issue bonus shares ?
- (g) Discuss the various forms of dividends.
- (h) What is ABC Approach ?
- (i) Explain Commercial Paper.
- (j) What is marginal cost of capital ? How is it determined ?

### SECTION-B

2. Attempt any **three** parts of this question in 100 to 200 words.  
(10×3=30)
- (a) Explain the meaning, nature and scope of business finance.
  - (b) How can the impact of risk and uncertainty be incorporated in capital budgeting ?
  - (c) 'The Traditional Approach to capital structure relevance is mid-way between the NI and NOI approach'. Explain with an example.
  - (d) What are Receivables ? What aspects should be considered in the management of Receivables ?
  - (e) Discuss the significance of dividend policy decisions. What are the different dividend policies a company can follow ?

### SECTION-C

**Note :-** Attempt all questions of this Section in 300-500 words.

(10×5=50)

3. 'The role of finance manager has undergone change in the changing environment offering multiple challenges.' Discuss.

**OR**

Discuss in detail the various long-term sources of finance.

4. What is leverage ? What are its types and their implications ?  
An analytical statement of XYZ company is given below :

	Rs.
Sales	9,60,000
Variable cost	5,60,000
Contribution	4,00,000
Fixed costs	2,40,000
EBIT	1,60,000
Interest	60,000
Earnings Before Tax	1,00,000
Tax	50,000
Net Income	50,000

Calculate the degree of :

- (i) Operating Leverage
- (ii) Financial Leverage
- (iii) Combined Leverage

**OR**

M/s XYZ and Co. are considering the purchase of a machine. The machines X and Y costing Rs. 50,000 are available. Earnings after taxation are expected to be as under :

Year	Machine X Rs.	Machine Y Rs.	Discount Factor at 10%
1	15,000	5,000	0.9091
2	20,000	15,000	0.8264
3	25,000	20,000	0.7513
4	15,000	30,000	0.6830
5	10,000	20,000	0.6209

Evaluate and suggest which alternative is better according to :

- (i) Pay back method
  - (ii) Accounting rate of return method
  - (iii) Net present value method.
5. 'Cost of capital is not a cost but the minimum rate of return expected by investors'. Elaborate. Why is the concept of cost of capital relevant ? What are the different types of costs ?

**OR**

In considering the most desirable capital for a company, the following estimates of the cost of debt and equity capital (after tax) have been made at various levels of debt-equity mix.

Debt as % of total Capital Employed	Cost of Debt %	Cost of Equity %
0	7.0	15.0
10	7.0	15.0
20	7.0	15.5
30	7.5	16.0
40	8.0	17.0
50	8.5	19.0
60	9.5	20.0

Determine the optimal debt equity mix for the company by calculating composite cost of capital.

6. 'Investors are indifferent to the dividend policy of the firm'. Critically examine this statement in light of the M-M theory of dividend irrelevance.

**OR**

What do you understand by cash management ? Explain the various principles to be followed by an organisation for managing cash.

7. Write short notes on any two of the following :
- (i) Factory
  - (ii) Rights Issue
  - (iii) Risk-Return Analysis
  - (iv) Overcapitalisation and Undercapitalisation.