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

PAPER ID : 7116 Roll No. | | | | | | | | | | |

M.B.A.

(SEMESTER-II) THEORY EXAMINATION, 2011-12

FINANCIAL MANAGEMENT

Time : 3 Hours] *[Total Marks : 100*

Note : Attempt questions from **all** Sections as directed.

Section – A

1. Answer all **ten** questions. **All** questions carry equal marks. **10 × 2 = 20**

(a) What are preemptive rights ?

(b) What is Sweat Equity ?

(c) What are deep discount bonds ?

(d) What is zero working capital ?

(e) What is ABC Approach ?

(f) What is just in time (JIT) ?

(g) What is financial leverage ?

(h) What is Factoring ?

(i) What is payback period method of capital budgeting ?

(j) What is ploughing back ?

Section – B

2. Answer any **three** of the following questions : **3 × 10 = 30**

(a) Objective of profit maximization does not provide the managers with an operationally useful criterion. Comment.

(b) What do you understand by indifference level of EBIT ? How can it be helpful in determination of appropriate capital structure of a firm ?

(c) What is optimal capital structure ? Compare and contrast the net operating approach with M-M approach to the theory of capital structure.

(d) Discuss the components of working capital. What are the factors affecting working capital requirement ?

(e) Discuss the role of finance manager in improving efficiency of inventory management.

Section – C

Answer the following questions : **5 × 10 = 50**

3. Financial management has changed substantially in scope and complexity in recent decades. How do you account for this trend ? In what respect are the modern finance functions wider than traditional ones in their scope ?

OR

Evaluate capital budgeting as a tool of managerial decision making. Discuss how capital budget of a firm is prepared.

4. What do you understand by cost of capital ? How would you calculate cost of equity capital ? What assumptions are made for calculating cost of equity capital ?

OR

Indian Rubber Industries Ltd. has assets ₹ 64,000 which have been financed with ₹ 2,08,000 of debt and ₹ 3,60,000 of equity and a general reserve of ₹ 72,000. The firm's total profits after interests and taxes for the year ending 31st December 1986 were ₹ 54,000. It pays 10% interest on borrowed funds and is in the 50 percent tax bracket. It has 3600 equity shares of ₹ 100 each selling at a market price of ₹ 120 per share. What is the weighted average cost of capital ?

5. In managing cash, finance manager faces the problem of compromising between conflicting goals of liquidity and profitability. Comment. What strategies a finance manager should develop to solve this problem in current scenario ?

OR

Discuss the Gordon's model of dividend decision. How far is the model of practical relevance ?

6. A company is operating at 75% capacity, producing 14,000 units per annum, at the following cost-price structure :

	₹
Raw Material	10 per unit
Wages	5 per unit
Variable Overheads	2 per unit
Fixed Overheads	1 per unit
Profit	2 per unit
Selling Price	20 per unit

On 31st December, 2011, the current assets and liabilities were as follows :

		₹
Raw Material	5,000 units at cost	25,000
Work in Progress	1,200 units at cost	9,600
Finished Goods	4,000 units at cost	44,000
Sundry Debtors		88,000
Creditors for goods		35,000
Liability for wages		4,000
Liability for expenses		5,000

In view of the increased demand for the product, it has been decided that from 1st January, 2012, the unit should operate at 90% capacity. You are required to ascertain the additional working capital as would be necessary in view of additional production. The prices of materials, rates of wages and expenses and the selling price per unit will not be changed. The period of credit allowed to customers, credit allowed by suppliers and also time lag in payment of wages and expenses shall remain the same as before. Work in process may be assumed to be 100% complete as regards materials and 55% as regards wages and overheads.

OR

ABC Ltd. is considering three financial plans for which the key information is as below :

(a) Total investment to be raised ₹ 5,00,000.

(b) Plans of Financing Proportion :

Plans	Equity	Debt	Preference Shares
A	100%	–	–
B	50%	50%	–
C	50%	–	50%

(c) Cost of Debt 9%, cost of Preference Shares 9%

(d) Tax Rate 50%

(e) Equity shares of the face value of ₹ 10 each will be issued at a premium of ₹ 12 per share.

(f) Expected EBIT is ₹ 1,16,000

Determine for each plan :

(i) Earnings per share (EPS)

(ii) Financial break-even point

(iii) Compute the EBIT range among the plans for point of indifference.

7. Write short notes on any **two** of the following :

(i) Wealth maximization

(ii) Long Term Finance

(iii) Walter's relevance approach of dividend decision

(iv) ABC Analysis