



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

PAPER ID : 270227

Roll No. 1403270093

M. B. A.

(SEM. II) THEORY EXAMINATION, 2014-15
FINANCIAL MANAGEMENT

Time : 3 Hours]

[Total Marks : 100

Note : The question paper contains **three** Sections. **All** Sections are compulsory.

SECTION - A

5×4=20

1 Attempt any **four** questions. Answer question in **50 – 75** words (except in case of numerical) :

- (a) Objective of profit maximization does not provide the managers with an operationally useful criterion. Comment.
- (b) Explain the rule 72.
- (c) Define financial leverage.
- (d) What is Just in Time (JIT) ?
- (e) What do you mean by IRR ?
- (f) What do you mean by inventory control ?

270227]

1

[Contd...

SECTION – B**15×2=30****2** Attempt **all** questions from this section :

- (a) The average rate of dividend paid by X Ltd. For the last five years is 21%. The earnings of the company have recorded a growth rate of 3% per annum. The market value of the equity shares is estimated to be Rs. 105. Find out (i) the cost of equity share capital, (ii) Determine the estimated market price of the equity shares if the anticipated growth rate of the firm rises to 5%, (iii) If the company's cost of capital is 20% and the anticipated growth rate is 5%, determine the market price of the share, assuming the same dividend per share.
- (b) A company earns Rs. 5 per share. It is capitalized at a rate of 10% and has a rate of return on investments of 16%. According to Walter's model what should be the price per share at 50% dividend pay out ratio ? Is this the optimum pay out ratio according to Walter ?

SECTION – C**10×5=50****3** Attempt **all** questions. Answer question in **300 – 500** words (except in case of numerical) :

- (a) "The principal focus of finance is on decisions and actions which affect the value of the firm." How can financial management help to maximize it ?

OR

What is Capital Budgeting ? List various methods of Capital Budgeting. Give merits and demerits of NPV method.

- 4 What is meant by leverage ? Explain its types, effects and limitations.

OR

Sales Rs. 20,00,000, variable cost Rs. 6,00,000 fixed costs Rs. 1,00,000, interest Rs. 5000.

- (i) Using the concept of operating leverage, by what percentage will EBIT increase, if there is a 10% increase in sales ?
- (ii) Using the concept of financial leverage, by what percentage will EBT increase ? If there is a 6% increase in EBIT ?
- (iii) Using the concept of combined leverage, by what percentage will EBT increase, if there is a 6% increase in sales ?

- 5 Discuss the basic features of equity shares, preference shares and debentures.

OR

What do you mean by Optimum Capital Structure ? Critically examine the M.M. Theory of Capital Structure.

- 6 Write short notes on : (i) Trade Credit (ii) Accrued Expenses (iii) Deferred Income.

OR

Given EPS Rs. 20, Capitalisation rate 15%, Internal rate of return from retained earnings 18%. The company is considering a pay out of 25%, 60% and 75%. Which of these will maximize the wealth of shareholders using

- (a) Walter's approach
- (b) Gordon approach

7 Explain in brief the various techniques of inventory management.

OR

Discuss the various types of costs and risks associated with receivables.