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Paper Id: 270244 **Roll No.**

MBA/MBA (TM)
(SEM-II) THEORY EXAMINATION, 2018-19
FINANCIAL MANAGEMENT AND CORPORATE FINANCE

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

Note: 1. Attempt all Sections. If require any missing data; then choose suitably.

SECTION A

1. Attempt *all* questions in brief. 2 x 10 = 20

		Marks	CO
a.	What is corporate financial management?	2	1
b.	What is time value of money?	2	1
c.	What is profitability index?	2	1
d.	A project requires an outlay of Rs. 1, 00,000 and yields annual cash inflow of Rs. 25,000 for 7 years. Calculate the payback period for the given project?	2	2
e.	What is point of indifference?	2	1
f.	A company has estimated that for a new product its selling price is Rs. 15 per unit, variable cost is Rs. 10 per unit and fixed cost is Rs. 10,000. Calculate the operating leverage for sales volume of 5000 units.	2	3
g.	What are essentials of a sound dividend policy?	2	4
h.	What is meant by stock dividend?	2	1
i.	What is lease financing?	2	1
j.	What is venture capital?	2	1

SECTION B

2. Attempt any *three* of the following:

		Marks	CO
a.	"Finance is the life blood of Industry." Elucidate this statement with suitable examples.	10	1
b.	"Equity Capital has also a cost." Explaining it discuss the various methods of measuring the cost of equity capital.	10	3
c.	"The basic problem in financing an enterprise is to maintain a sound capital structure." Examine this statement and suggest the factors you would bear in mind while planning capital structure of a medium-sized manufacturing company.	10	3
d.	What considerations are kept in view while deciding the dividend policy of a company? Explain.	10	4
e.	What is meant by financial system? Discuss the main components of the Indian financial system.	10	5

SECTION C

3. Attempt any *one* part of the following:

		Marks	CO
a.	The following table gives dividend and share price data for 'VEER' manufacturing Company:-	10	2

Year	Dividend Per Share	Closing Share Price
2008	2·50	12·25
2009	2·50	14·20
2010	2·50	17·50
2011	3·00	16·75
2012	3·00	18·45
2013	3·25	22·25
2014	3·50	23·50
2015	3·50	27·75
2016	3·50	25·50
2017	3·75	27·95
2018	3·75	31·30

You are required to calculate:
(i) The annual rates of return,
(ii) The expected (average) rate of return,
(iii) The variance, and
(iv) The standard deviation of returns.

		Marks	CO
b.	What are the basic financial decisions? How do they involve risk-return trade-off? Explain.	10	1

4. Attempt any *one* part of the following:

		Marks	CO
a.	A project costs Rs. 15,500 and is expected to generate cash inflows of Rs. 8000, Rs. 7000 and Rs. 6000 at the end of each year for next 3 years. Find out the project's IRR by trial and error method.	10	2
b.	A company issued 10,000 ten-years 8% debentures of Rs. 100 each at 4% discount. Under the terms of debenture trust, these debentures are to be redeemed after 10 years at 5% preimum. The cost of issue is 2%. Assuming tax rate at 50%, Calculate the cost of debt capital before and after tax.	10	3

5. Attempt any *one* part of the following:

		Marks	CO
a.	The present capitalisation of a company is as follows: Rs. 4,000, 5% Debentures of Rs. 100 each 4,00,000 2,000 8% Redeemable Preference Shares of Rs. 100 each 2,00,000 40,000 Equity Shares of Rs. 10 each 4,00,000 Total 10,00,000 The present earnings of the company before interest and taxes are 10% on invested capital. The company is in need of Rs. 2,00,000 for purchasing some special plant and it is estimated that additional investment will also produce 10% earnings every year. The Company has asked for your advice as to whether requisite amount be obtained in the form of 5% Debentures or 8% Redeemable Preference Shares or Equity Shares. Assume 50% tax rate.	10	3
b.	A Company has sales of Rs. 1 lakh. The variable costs are 40% of the sales while the fixed operating costs amount to Rs. 30,000. The amount of interest on long-term debt is Rs. 10,000. You are required to Calculate the operating, financial and composite leverages and illustrate its impact if sales increased by 5%.	10	3

6. Attempt any *one* part of the following:

		Marks	CO
a.	Discuss the 'Walter's Approach' with formula and various assumptions of the relevance concept of dividend.	10	4
b.	XYZ Company currently has outstanding 2, 00,000 shares selling at Rs. 200 each. The firm is thinking of declaring a dividend of Rs. 10 per share at the end of the current year. The Capitalizations rate of this type of firm is 10%. (A) What will be the price of the share at the end of the year if: (i) A dividend is not declared and (ii) A dividend is declared. (B) Explain that as per M.M. approach the wealth of share holders is equal whether dividend is paid or not.	10	4

7. Attempt any *one* part of the following:

		Marks	CO
a.	Discuss the various financial instruments in the Indian financial system.	10	5
b.	Write a short notes on :- (i) Venture Capital, and (ii) Introduction to derivatives.	10	5

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