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

Paper ID : 270227 Roll No.

M.B.A.

Theory Examination (Semester-II) 2015-16

FINANCIAL MANAGEMENT

Time : 3 Hours *Max. Marks : 100*

Section-A

1. Answer the following questions not more than 30 words each. (2×10=20)

   (a) Define finance function.

   (b) What is difference between speculation and investment?

   (c) What is Net present value?

   (d) What is Gordon Model?

   (e) Define financial management.

   (f) What is operating cycle?

(g) Differentiate between profit and wealth maximization.

(h) What is capitalization?

(i) What is pecking order theory?

(j) Differentiate between systematic and unsystematic risk.

Section-B

2. Answer any five questions from this section. (10×5=50)

(a) Define dividend function. Discuss its nature and scope.

(b) Write a note on capital expenditure control.

(c) Describe the Walter's formula regarding dividend policy.

(d) What are the basic features of an optimum capital structure?

(e) Explain the 'cash cycle concept' of working capital.

(f) Explain any two factors affecting the size of investments in receivables.

(g) Discuss any four factors affecting the level of cash.

(h) What is meant by weighted average cost of capital? Explain this method with suitable illustration.

Section-C

Answer any two out of the following three: (15×2=30)

Q.3. Golden View Ltd. has a cost of equity capital of 12%, the current market value of the company (V) is Rs. 10,00,000 (@ Rs. 10 per share). Assume values for new investments (I), earnings (E) and dividends (D) at the end of first year as Rs. 3,40,000: Rs. 2,75,000 and Rs. 2.50 per share respectively. Show under M.M. assumptions, the payment of 'D' does not affect the value of the company.

Q.4. Rishi ltd. has issued 1,000, 9 % Preference Shares of Rs. 100 each at Rs. 95 per share. The floatation charges are underwriting commission 2%, brokerage 0.5% and printing Rs. 500. The company is subject to tax rate of 50%. Find out the cost of capital after tax and before tax.

What would be such cost, if shares had been issued at Rs. 105?

Q.5. A company has the following financial details :

EBIT Rs. 5,00,000 ; Debt Rs. 8,00,000, Cost of Debt 10%, Cost of Equity 16%.

It has been observed that if debt is increased by Rs. 1,00,000 no change in the equity capitalization rate is observed but when debt is increased by Rs. 2,00,000, equity capitalization rate increases from 16% to 18%.

Explain the situation using traditional approach.