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MBA
(SEM-II) THEORY EXAMINATION 2017-18
FINANCIAL MANAGEMENT

Time: 3 Hours *Total Marks: 70*

Note: **1.** Attempt all Sections. If require any missing data; then choose suitably.
2. Be precise in your answers.

SECTION A

1. Attempt *all* questions in brief. **2 x 7 = 14**

a. What is finance function?
b. What is meant by financial decision?
c. Classify investment decisions.
d. Name the types of dividend polices.
e. What are the needs of working capital?
f. How can be Financial leverage calculated?
g. Explain working capital management in your words.

SECTION B

2. Attempt any *three* of the following: **7 x 3 = 21**

a. What are the major functions of finance manager?
b. Distinguish the operating leverage from financial leverage.
c. Explain Walters model with assumptions and criticisms against model.
d. Write concept and advantages of EBIT-EPS analysis.
e. A firm has the following capital structure and after-tax costs for the different sources of funds used:

Source of Funds	Amount `	Proportion %	After-tax cost %
Debt	15,00,000	25	5
Preference Shares	12,00,000	20	10
Equity Shares	18,00,000	30	12
Retained Earnings	15,00,000	25	11
Total	60,00,000	100	

You are required to compute the weighted average cost of capital.

SECTION C

3. Attempt any *one* part of the following: **7 x 1 = 7**

(a) Explain the role of financial system in the economic development of the country. State the limitations of Indian financial system.
(b) Define holding-period return. How is it calculated?

4. **Attempt any *one* part of the following:** **7 x 1 = 7**

(a) How overall cost of capital is calculated?

(b) From the following balance sheet of A Company Ltd. you are required to prepare a schedule of changes in working capital and statement of flow of funds.

Balance Sheet of A Company Ltd., as on 31st March

Liabilities	2004	2005	Assets	2004	2005
Share Capital	1,00,000	1,10,000	Land and Building	60,000	60,000
Profit and Loss a/c	20,000	23,000	Plant and Machinery	35,000	45,000
Loans	—	10,000	Stock	20,000	25,000
Creditors	15,000	18,000	Debtors	18,000	28,000
Bills payable	5,000	4,000	Bills receivable	2,000	1,000
			Cash	5,000	6,000
	1,40,000	1,65,000		1,40,000	1,65,000

5. **Attempt any *one* part of the following:** **7 x 1 = 7**

(a) Discuss the various factors affecting the capital structure.

(b) ABC Ltd., needs ₹. 30,00,000 for the installation of a new factory. The new factory expects to yield annual earnings before interest and tax (EBIT) of ₹.5,00,000. In choosing a financial plan, ABC Ltd., has an objective of maximizing earnings per share (EPS). The company proposes to issuing ordinary shares and raising debit of ₹ 3,00,000 and ₹. 10,00,000 of ₹ 15,00,000. The current market price per share is ₹ 250 and is expected to drop to ₹ 200 if the funds are borrowed in excess of ₹ 12,00,000. Funds can be raised at the following rates.

–up to ₹ 3,00,000 at 8%

–over ₹ 3,00,000 to Rs. 15,000,00 at 10%

–over ₹ 15,00,000 at 15%

Assuming a tax rate of 50% advise the company.

6. **Attempt any *one* part of the following:** **7 x 1 = 7**

(a) Explain the factors affecting the dividend policy.

(b) The earnings per share of a company are ₹ 80 and the rate of capitalization applicable to the company is 12%. The company has before it an option of adopting a payment ratio of 25% (or) 50%(or) 75%. Using Walter's formula of dividend payout, compute the market value of the company's share of the productivity of retained earnings (i) 12% (ii) 8% (iii) 5%.

7. **Attempt any *one* part of the following:** **7 x 1 = 7**

(a) Discuss the concept of working capital.

(b) Kumar company has sales of ₹ 25,00,000. Variable cost of ₹12,50,000 and fixed cost of ₹ 50,000 and debt of ₹ 12,50,000 at 8% rate of interest. Calculate combined leverage.