

**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 31<sup>st</sup> 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. 15,00,00 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.