



AAQ-010-003203

Seat No. _____

M.B.A. (CBCS) (Sem. II) Examination

April / May – 2016

Financial Management (CCT-10203)

Faculty Code : 010

Subject Code : 003203

Time : 3 Hours]

[Total Marks : 70

Instruction : All questions carry **equal** marks.

1 Explain the following terms : (any seven)

- | | |
|--------------------------------|-------------------------------|
| (1) MM approach | (6) Optimum capital structure |
| (2) Hire purchase | (7) Venture capital |
| (3) Leasing | (8) Trading on equity |
| (4) Working capital management | (9) Time value of money. |
| (5) Receivable management | |

2 (a) What do you mean by financial management ? Explain its objectives.

(b) The balance sheet of Arya Ltd. is given below :

| Liabilities | Rs. | Assets | Rs. |
|-----------------------------------|-----------------|------------------|-----------------|
| Equity capital (Rs. 10 per share) | 90,000 | Net fixed assets | 2,25,000 |
| 10% long term debt | 1,20,000 | Current assets | 75,000 |
| Retained earnings | 30,000 | | |
| Current liabilities | 60,000 | | |
| Total | 3,00,000 | Total | 3,00,000 |

The company's total assets turnover ratio is 3, its fixed operating cost is Rs. 1,50,000 and its variable operating cost ratio is 50%. The income tax rate is 50%.

You are required to calculate the different types of leverages for the company.

OR

- 2 (a) Explain net income (NI) and net operating income approach of capital structure with suitable example.
- (b) The earning per share of a company is Rs. 16 and the rate of capitalization applicable is 10%. The company has before it an option of adopting (i) 50% (ii) 80% (iii) 100% dividend payout ratio. Compute the market price of the company's quoted shares as per walter's model if it can earn a return of (a) 15% (b) 10% and (c) 5% on its retained earnings.
- 3 What do you mean by leverage ? Explain different types of leverages.

OR

- 3 Define capital budgeting. Explain its process in detail.
- 4 (a) What do you mean by cost of capital ? Discuss about the problems in determination of cost of capital.
- (b) Jayaj Ltd. is considering investment in a project that costs Rs. 4,00,000. The project has an expected life of 5 years and zero salvage value. The company uses straight line method of depreciation. The company's tax rate is 40%. The estimated earnings before depreciation and before tax from the project are as follows :

| Year | Earnings before depreciation and tax (Rs.) |
|-------------|---|
| 1 | 1,40,000 |
| 2 | 1,60,000 |
| 3 | 2,40,000 |
| 4 | 1,80,000 |
| 5 | 1,20,000 |

You are required to calculate :

- (1) Net present value at 10%.
- (2) Profitability index at 10%.

OR

4 (a) Explain different factors affecting working capital requirement of a firm.

(b) A company's capital structure consists of the following :

| | |
|-------------------------------|--------------|
| Equity shares of Rs. 100 each | Rs. 20 lakhs |
| Retained earnings | Rs. 10 lakhs |
| 9% preference shares | Rs. 12 lakhs |
| 7% debentures | Rs. 8 lakhs |

The company earns 12% on its capital. The income tax rate is 50%. The company requires a sum of Rs. 25 lakh to finance its expansion programme for which the following alternatives are available to it :

- (1) Issue of 20,000 equity shares at a premium of Rs. 25 per share.
- (2) Issue of 10% preference shares.
- (3) Issue of 8% debentures.

It is estimated that the P/E ratio in the cases of equity, preference and debentures financing would be 21.4, 17 and 15.7 respectively.

Which of the following three financing alternatives would you recommend and why ?

5 Write notes on : (any two)

- (1) Motives of cash management
- (2) Financial decision
- (3) Difference between : Debt and Equity
- (4) Dividend Policy.