



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.
