Additional Information :

Selling price	₹ 230 per unit
Level of activity	1040O0 units of production per annum
Raw material in stock	average 6 weeks
Work In Progress	average 2 weeks
Finished goods in stock	average 4 weeks
Credit allowed by supplier	average 4 weeks
Credit allowed to debtors	average 6 weeks
Lag in payment of wages	average 2 weeks
Lag in payment of overhead	average 1 week

Cash at bank is expected to be ₹ 50,000.

You may assume that production is carried on evenly throughout the year (52 weeks) and wages and overhead accrue evenly. 10

18. Briefly explain the factors that determine the optimum capital structure of a firm. 10

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2024

PG 2nd Semester Examination

MBA

PAPER : MBA-201

(Financial Management)

Full Marks : 80

Time : 3 hours

A. Answer *any* **eight** questions from the following: 8×5=40

1. What is the scope of financial management in a modern business environment? 5

2. Explain the agency problem in the context of financial management. 5

3. Explain the concept of commercial paper and its role in short-term financing. 5

4. What are American Depository Receipts (ADRs), and how do they facilitate international financing? 5

5. Describe the rights and privileges that preference shareholders typically enjoy. 5

6. Discuss the main objectives of capital budgeting in the context of a fim's long-term financial planning. 5

7. Financial risk is completely avoidable but business risk is not completely avoidable- Explain the statement. 5

8. Do you think Net Income and Net Operating Income theories in capital structure are completely opposite to each other? Justify your answer. 5

9. Distinguish between :

(a) Explicit Cost of Capital and Implicit Cost of Capital

(b) Explicit Cost of Capital and Overall Cost of Capital 2+3

16. Calculate Degree of Operating Leverage, Degree of Financial Leverage, the Degree of Combined Leverage for the following firms and interpret the results :

	IT Ltd.	ITI Ltd.	HMT Ltd.
Output (units)	400000	100000	600000
Fixed Cost (₹)	3,75,000	6,00,000	1,00,000
Variable Cost per unit (₹)	3	7	1
Interest expense (₹)	50,000	80,000	____
Selling Price per unit (₹)		5	25

10

17. From the following information estimate the net working capital required for the project.

Estimated cost per unit of production :	**Amount per unit (₹)**
Raw material	80
Direct labour	40
Ovehead	70
Total cost	190

10. For varying levels of debt-equity mix, the estimates of cost to debt and equity capital (after tax) are given below.

Debt as % of Total Capital Employed	Cost of debt %	Cost of equity%
0	7	15
10	7	15
20	7	16
30	8	17
40	9	18
50	10	21
60	11	24

You are required to decide on the optimal debt-equity mix for the Company by calculating Composite Cost of Capital. 5

11. Do you think Gross Working Capital is always positive, but Net Working Capital may be positive or negative? Justify the statement. 5

12. *(a)* A Company raises ₹ 95,000 by the issue of 1000 10% debentures of ₹ 100 each at a 10% discount, which are repayable at par after 10 years. If the rate of company's tax is 50%, what is the cost of debt capital to the firm?

(b) The equity capital of a company consists of ₹ 10 lakhs divided into one lakh equity shares of ₹ 10 each. Currently these shares are quoted in the market at ₹ 20 each. The company pays a dividend of ₹ 2 per share and the investors market expects growth in dividend at the rate of 5% p.a. What is cost of equity capital to the firm? 2+3

B. Answer *any* **four** questions from the following : 10×4=40

13. Describe the primary functions of financial management in an organization. Why is shareholders' wealth maximization considered a more comprehensive goal than profit maximization? 4+6

14. Explain the Net Present Value (NPV) method and its use in capital budgeting decisions. How does it differ from Internal Rate of Return (IRR)? (4+2)+4

15. Explain the concept of Time Value of Money (TVM) and why it is a crucial principle in financial management.

The initial cash outlay of a project is ₹ 60,000 and it generates cash inflows of ₹ 30,000, ₹ 25,000, ₹ 22,000 and ₹ 15,000 during four years. Using the concept of time value of money appraise the profitality of the proposed investment assuming 9% rate of discount. (3+2)+5