

**2019**

**MBA**

**2<sup>nd</sup> Semester Examination**

**FINANCIAL MANAGEMENT**

**PAPER – MBA-201**

**Full Marks : 100**

**Time : 3 Hours**

The figures in the right-hand margin indicate full marks.

Candidates are required to give their answers in their own words as far as practicable.

Illustrate the answers wherever necessary.

**(Turn Over)**

**2**  
**Group – A**

Answer any **EIGHT** questions from the following:

**8 X 2=16**

1. What do you mean by explicit cost of capital?
2. What do you mean by weighted cost of capital?
3. What is the formula to be used in measuring the cost of perpetual debt?
4. Mention the principal formula as suggested in CAPM for ascertaining the cost of equity.
5. What is capital budgeting decision?
6. What is payback period?
7. When will a project be accepted as per the NPV criterion?
8. What is retention ratio?
9. Define Financial Management.
10. What are the elements of Financial Management?
11. Define Yield to Maturity.
12. What do you mean by leverage?
13. What is coupon rate?
14. What is the basic principle underlying NOI approach?
15. What do you mean by intrinsic value?
16. Define Zero Coupon Bond

## Group - B

Answer any **EIGHT** questions from the following: **8 X 4**

17. How will you determine the cost of equity share capital in a growth firm?
18. A Ltd. issued 12% debentures @ Rs 100 each in order to raise Rs. 1500000 to finance a Project. The flotation cost is 10%. The debentures are redeemable at par at the end of 5 years. The tax rate is 40%. Ascertain the cost of debt.
19. Establish the relation between BCR and NBCR.
20. Using the following data, calculate average rate of return :
- |                                 |            |
|---------------------------------|------------|
| Cost of the machine             | Rs. 60,000 |
| Scrap Value                     | Rs. 10,000 |
| Average annual profit after tax | Rs. 9,000  |
| Economic life of the machine    | 5 years.   |
21. Distinguish between horizontal merger and vertical merger.
22. The following data are available for Biswas Ltd. :  
EPS Rs. 3, IRR 15%, cost of capital 10% What will be the price per share as per Walter's model if dividend payout ratio is 75%?
23. What do you mean by time value of money?
24. State the significance of cost of capital.
25. Differentiate between Profit maximisation and Wealth maximisation .
26. Discuss in brief the various functions performed by the Finance Manager of an organisation.
27. Distinguish between DOL and DFL.

- 28.** The following table depicts the information regarding the expenses, shares and sales of the Pvt Ltd.

Quantity Sold	10,000 units
Variable Cost Per unit	Rs. 100
Selling price Per unit	Rs. 500
Fixed expenses	Rs. 10,00,000
Number of equity shares	1,00,000
Debt	Rs. 10,00,000 @ 20% interest
Preference share dividend	10,000 shares of Rs. 100 each @ 10%
Tax rate	50%

Calculate the degree of total leverage of the Company.

- 29.** Differentiate between Business Risk and Financial Risk.
- 30.** Ascertain the Compound Value and Compound interest of an amount of Rs. 75,000 at 8% p. a. Compounded annually for 5 years.
- 31.** State the short term sources of working capital.
- 32.** The following table shows the cash flow or project A & B.

Year	Cash flows of A(Rs.)	Cash flows of B (Rs.)
1	20,000	10,000
2	20,000	20,000
3	20,000	30,000

Determine the value of assets of the two projects with a discount rate of 10%.

**Group - C**

Answer any **FOUR** questions from the following: **4 X 8**

- 33.** A project requires an initial cost of Rs. 20,000. The life of the project is 5 years. The required rate of return and income tax rate are 10% and 50% respectively. The profits before depreciation and taxes generated from the project at the end of 1<sup>st</sup>, 2<sup>nd</sup>, 3<sup>rd</sup>, 4<sup>th</sup> and 5<sup>th</sup> years are Rs. 10,000, Rs. 6,000, Rs. 4,000, Rs. 10,000 and Rs. 12,000 respectively. The method of depreciation is straight line. You are required to ascertain NPV.
- 34.** A Ltd. belongs to a risk class for which the appropriate cost of capital is 10%. It has 50,000 outstanding equity shares selling at Rs. 100 each. The company is contemplating the declaration of Rs. 8 as dividend per share at the end of the current fiscal year which has just started. Based on the MM approach, answer the following question:
- Assuming that the company pays the dividend, has a net earnings of Rs. 5,00,000 and intends to make a new investment of Rs. 10,00,000 during the period, how many new shares must be issued?
- 35.** Discuss the financial implication of merger with a suitable example.

36. You are required to advise management about the purchase of a new machine on the basis of payback period criterion.

	Machine X	Machine Y
Initial investment	Rs. 2,00,000	Rs. 3,00,000
Estimated life	10 years	12 years
Annual cash in flow after tax	Rs. 25,000	Rs. 30,000

37. Write down the interface between Finance and other Business Functions
38. Discuss in brief the importance of Capital Structure.
39. i) Given below are the two firms A & B. Which are identical in all aspects except the degree of leverage employed by them. Using NI to Approach calculate the average Cost of Capital of both the firms & also interpret the result **(5 + 3)**

	Firm A	Firm B
Net Operating income (EBIT)	Rs. 1,00,000	Rs. 1,00,000
Interest on Debenture (I)	NIL	Rs. 25,000
Equity earnings (E)	Rs. 1,00,000	Rs. 75,000
Cost of equity (Ke)	15%	15%
Cost of Debentures (Kd)	10%	10%
Market Value of equity ( $S=E/k_e$ )	Rs. 6,66,667	Rs. 5,00,000
Market Value of debt (B)	NIL	Rs. 2,50,000
Total Value of Firm (V)	Rs. 6,66,667	Rs. 7,50,000

- ii) State the assumptions of Modigliani and Millers approach.

40. Define Permanent Working Capital and Temporary Working Capital and differentiate between them.

**( Internal Assessment : 20 Marks )**