2022

M B A

2nd 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.

Answer all questions.

1. Answer any *eight* questions. 8×5

(a) What is Financial Risk? State the major factors that contribute to Financial Risk? 2+3

(Turn Over)

(b) Distinguish between specific cost of capital and overall cost of capital.

(c) Write a short note on Commercial Paper.

(d) Briefly discuss the Net Present Value technique for Capital Budgeting decision.

(e) The initial cash outlay of a project is Rs. 50,000 and it generates cash inflows of Rs. 20,000, Rs. 15,000, Rs. 25,000 and Rs. 10,000 in four years. Calculate Net Present Value of the proposed investment assuming 10% rate of discount.

(f) Explain the components of the cost of capital?

(g) What is a convertable debenture? State the pros and cons of financing by convertible debentures in India? 2+3

(h) What is an EBIT-EPF analysis? Explain the usage of EBIT-EPS analysis. 2+3

(i) Briefly discuss the different motives behind the merger.

(j) Narrate the different approaches to financing of working capital requirements.

(k) What do you mean by mutually exclusive projects? How do they differ from accept-reject projects? 2+3

(l) Explain the term 'trading on equity'. Why, when and how it can be used by a business organization? 2+3

2. Answer any *four* questions. 4×10

(a) Briefly discuss the three important decision-making areas of Financial Management.

(b) Discuss the important determinants of working capital with suitable examples.

(c) Give a critical appraisal of the Traditional Approach and the Modigliani-Miller Approach to the theory of capital structure.

(d) (i) What do you mean by explicit cost of capital ?

(ii) A company issues a new 10 percent debentures of Rs. 1,000 face value to be redeemed after 10 years. The debenture is expected to be sold at 5 percent *discount. It will* also involve flotation costs of 5 percent of face value. The companies tax rate is 35 percent. What would be the cost of Debt? 3+7

(e) Briefly discuss the assumptions and arguments used by Modigliani and Miller in support of the irrelevance of dividends.

(f) The selected financial data for A, B and C companies for the current year ended 31st March, 2022 are as follows :

Particulars	A.Ltd.	B.Ltd.	C.Ltd.
Variable expenses as a percentage of sales	66.67	75	50
Interest expenses (Rs.)	200	300	1000
Degree of operating leverage	5	6	2
Degree of financial leverage	3	4	2
Income-tax rate	0.35	0.35	0.35

(i) Prepare income statements for A, B, and C companies.

(ii) Comment on the financial position of these companies. 6+4

[Internal Assessment – 20 Marks]