MBA 2nd Semester Examination, 2022

FINANCIAL MANAGEMENT

PAPER – MBA-201

Full Marks : 80

Time : 3 hours

The figures in the right hand margin indicate marks

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

A. Answer any *eight* questions out of the following : 5×8

1. Briefly explain the three key functions of the finance manager. 5

2. Briefly discuss the guidelines for issuing Commercial Paper. 5

3. Briefly discuss the Internal Rate of Return (IRR) method for Capital Budgeting decision. 5

4. Write a short note on participative preference share. 5

5. Explain the term 'Trading on Equity'. Why and how can it be used by a business organization ? 2 + 3

6. Distinguish between present value and future value with suitable examples. 5

7. An insurance agent offers you immediate retirement annuity which, for a lump-sum fee paid today, would provide you with ₹ 2,00,000 per year for the next 20 years. You currently earn 8% on low-risk investment compared to the retirement annuity. Ignoring taxes, what is the maximum amount you would pay for the annuity ? 5

8. Briefly discuss the important factors which influence dividend policy of a firm. 5

9. Distinguish between operating leverage and financial leverage. 5

10. What do you mean by convertibles ? How they defer from warrant ? 2 + 3

11. What is Operating Risk ? State the major factors that contribute to operating Risk. 2 + 3

12. What are the different approaches to financing of working capital requirements ? Explain briefly. 5

B. Answer any *four* questions out of the following : 10 × 4

13. Discuss the important determinants of working capital. 10

14. What is weighted average cost of capital ? Briefly discuss the rationality behinds the use of weighted average cost of capital in making financial decisions. 3 + 7

15. A firm has a capital structure exclusively comprising of 10,00,000 ordinary shares of ₹ 10 each. The firm needs additional ₹ 6,00,000 for construction of a new plant. The following three financing plans are feasible :

(*i*) The company may issue 60,000 ordinary shares at ₹ 10 per share.

(*ii*) The company may issue 30,000 ordinary shares at ₹ 10 per share and 3,000 8% Debentures at ₹ 100 each.

(*iii*) The company may issue 30,000 ordinary shares at ₹ 10 per share and 3,000, 8% Preference shares at ₹ 100 each.

If the company's earnings before interest and taxes is ₹ 12,00,000, what are the earnings per share under each of the three financing plans? Which alternative would you recommend and why? Assume a corporate tax rate of 30 per cent. 7 + 3

16. Briefly explain any of the two evaluation techniques of capital budgeting. 10

17. What are the different forms of Merger? Briefly discuss the different motives behind the merger. 5 + 5

18. Discuss, in brief, the Net Income Approach to capital structure decision. 10