M.B.A Semester–II Examination
FINANCIAL MANAGEMENT
Paper–MBA/204

Time : Three Hours] [Maximum Marks : 70

Note :— (1) Attempt **ALL** questions.

(2) Figures to the right indicate marks.

(3) Annuity tables showing present and future values are allowed.

SECTION—A

1. (a) What are the different sources of long-term financing ? State briefly the merits of each source of long term financing. 14

OR

(b) Describe the various factors, which affect the cost of capital in the capital structure of an organizations. 14

SECTION—B

2. (a) What are the various stages in total project life cycle ? Explain each in brief. 7

(b) Ravi is considering investing in a bond currently selling for Rs. 8785.07. The bond has four years to maturity, a Rs. 10,000 face value and a 8% coupon rate. The next annual interest payment is due one year from today. The approximate discount factor for investments of similar risk is 10%.

Calculate the following : The intrinsic value of the bond and YTM of the bond. Suggest Ravi should purchase the bond or not. 7

OR

(c) State the various reasons for issuing a bond. Also explain in detail the different types of bonds. 7

(d) NCW is a fast food restaurant chain. Potential franchisees are given the following revenue and cost informations :

	Rs.
Building and equipment	4,90,000
Annual Revenue	5,20,000
Annual cash operating cost	3,80,000

The building and equipment have useful life of 20 years. The straight line method for depreciations is used. The income tax is 40% given there facts :

(a) What is the pay back period ?

(b) What is accounting rate of return ? 7

3. (a) What is operating cycle concept ? What is difference between Gross and Net operating cycles in the context of working capital assessment ? 7

(b) The earning per share of Pome Ltd. is Rs. 20. The rate of capitalization is 12% and the rate of return on investment is 9%.

Compute the market price per share using Walter's formold if the dividend payout is :

(a) 20%

(b) 60% 7

OR

(c) Explain the Modigliani-Miller dividend irrelevance hypothesis. 7

(d) Peerless ltd. is engaged in customer retailing. You are required to forecast their working capital requirements from the following informations :

	Rs.
Projected annual sales	6,50,000
% of net profit to cost sales	25%
Average credit allowed to debtors	10 weeks
Average credit allowed by creditors	4 weeks
Average stock requirement	8 weeks
Add 20% to allow for contingencies	

7

SECTION—C

4. (a) In what respect the objective of wealth maximization superior to the profit maximization objectives ? Explain. 7

(b) Apart from financial and operating leverages, there is one more leverage called combined leverage. Analyze the three leverages with reference to their effect on financial decision making. 7

OR

(c) What do you understand by the term cost volume profit relationship ? Why is this relationship is important in business management ? 7

(d) "Maximization of profit is regarded as the proper objective of investment decision. But it is not exclusive of maximizing shareholders wealth." Comment. 7

SECTION—D

5. The following is the capital structure of a company :

	Rs.
Equity Share of Rs. 100 each	20,00,000
Reserve and surplus	8,00,000
9% Preference shares	12,00,000
7% Debentures	10,00,000
Total capital	**50,00,000**

The company earns 12 % on its total capital. The company proposes to invest Rs. 25 lakhs in an expansion programme. The following alternatives are available :

Plan A issue of 20,000 equity share at a premium of Rs. 25.

Plan B issue of 10% preference share

Plan C issue of 8% Debentures

The price earning ratios are estimated as follows :

Plan A-13, Plan B-12, Plan C-10.

Evaluate the financing plans and make your recommendations which plan is better and why ? Assuming corporate tax rate of 50%. 14