

AT-1407

M.B.A. (Semester-II) Examination
FINANCIAL MANAGEMENT
PAPER—204

Time : Three Hours]

[Maximum Marks : 70

- N.B. :—** (1) Attempt **ALL** questions.
(2) Figures to the right indicate marks.
(3) Annuity table showing Future Value, Present Value and scientific calculator is permitted.

SECTION—A

1. (a) Explain how dividend policy is an important tool to achieve the goal of wealth maximization. Also discuss factors affecting dividend decision of the company. 14

OR

- (b) What is the significance of Working Capital for a manufacturing firm ? Also discuss financial instruments use for working capital arrangement. 14

SECTION—B

2. (a) The modern approach to corporate finance is an improvement over the traditional approach. Comment. 7
(b) The data relating to two Companies are as given below :

	Company A	Company B
Debenture [12%]	Rs. 4,00,000	Rs. 6,50,000
Output (Units)	60,000	15,000
Selling Price per unit	Rs. 30	Rs. 250
Fixed Cost per Annum	Rs. 7,00,000	Rs. 14,00,000
Variable Cost per unit	Rs. 10	Rs. 75

You are required to calculate the operating leverage, financial leverage and combined leverage of the two companies. 7

OR

- (c) Explain profit maximization and wealth maximization objectives of financial management. 7

- (d) Two businesses, AB Ltd. and CD Ltd. sell the same type of product in the same type of market. Their budgeted profit and loss accounts for the current year ending March 31 are as follows :

	AB Ltd. (Rs.)	CD Ltd. (Rs.)
Particulars		
Sales	1,50,000	1,50,000
Less : Variable Costs	1,20,000	1,00,000
Fixed Costs	15,000	35,000
Net budgeted profit	<u>15,000</u>	<u>15,000</u>

You are required to :

- (1) Calculate the break-even point of each business and
 - (2) State which business is likely to earn greater profits in conditions of :
 - (a) heavy demand for the product. 7
 - (b) low demand for the product. 7
3. (a) Discuss discounting technique of capital budgeting. 7
- (b) The face value of a 10 year bond with coupon rate 10 percent per annum is Rs. 1,000. The interest is payable semi-annually. Assuming 12 percent required rate of return of investors, compute the value of the bond. 7

OR

- (c) Define valuation. Why is it important for a financial manager to understand the valuation process ? 7
- (d) A machinery requires an investment of Rs. 60,000. The machinery will have a scrap value of Rs. 3,000 at the end of its useful life of 5 years. The profit after tax and depreciation are estimated to be as follows :

Year	Rs.
1	5,000
2	15,000
3	20,000
4	30,000
5	20,000

Calculate net present values, assume discount rate 10%. 7

SECTION—C

4. (a) Briefly explain and illustrate the concept of 'time value of money'. 7
(b) Explain the Traditional theory of Capital structure. 7

OR

- (c) Which types of investment decisions come under study of time value of money ? And how concept of time value of money helps in investment decisions ? 7
(d) What are the assumptions and implications of NI approach ? Is there an optimal capital structure as per NI approach ? 7

SECTION—D

5. An electric equipment manufacturing company wishes to determine the weighted average cost of capital for evaluating projects. You have been supplied with following information :

Balance Sheet

Liabilities	Rs.	Assets	Rs.
1. Equity Share Capital	16,50,000	Fixed Assets	25,00,000
2. Preference Capital	4,50,000	Current Assets	15,00,000
3. Debentures	9,00,000		
4. Current Liabilities	10,00,000		
	40,00,000		40,00,000

Additional Information :

- 20 years 14% debentures of Rs. 2,500 face value, redeemable at 5% Premium, can be sold at par 2% flotation costs.
- 15% preference shares sale price Rs. 100 per share, Rs. 5 per share flotation cost.
- Equity shares : Sale price Rs. 115 per share, flotation costs Rs. 5 per share.

The Corporate tax rate is 55% and the expected growth in equity dividend is 8% per year. The expected dividend at the end of current financial year is Rs. 11 per share. Assume that the company is satisfied with its present capital structure and intends to maintain it.

14

