

Total No. of Questions - 10]
(2022)

[Total Pages : 4

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M.B.A. Examination

FINANCIAL MANAGEMENT

Paper – 204

(Semester-II)

Time : Three Hours]

[Maximum Marks : 60

The candidates shall limit their answers precisely within the answer-book (40 pages) issued to them and no supplementary/continuation sheet will be issued.

Note : Attempt *five* questions in all, selecting *one* question from each unit. All questions carry equal marks.

UNIT-I

1. “Finance function is concerned with allocating funds to specific assets and obtaining the best mix of financing in relation to the overall valuation of the firm.” Explain. Critically analyse the functions of financial manager and discuss some of the most important financial problems that face a decision maker today. 12

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2. "Maximization of profits is regarded as the proper objective of investment decision, but it is not as exclusive as maximising share-holder's wealth." Comment. Explain why is maximising wealth a better goal than maximising profits ?

12

UNIT-II

3. The following is an extract from the financial statement of KPN Ltd.

	(₹ Lakh)
Operating profit	105
Less : Interest on Debenture	<u>33</u>
	72
Less : Income tax (50%)	<u>36</u>
Net Profit	<u><u>36</u></u>
Equity share capital (shares of ₹ 10 each)	200
Reserve and Surplus	100
15% Non-convertible debentures (of ₹ 100 each)	<u>220</u>
	<u>520</u>

The market price per equity share is ₹ 12 and per debenture ₹ 93.75.

- (i) What is the earning per share ?
- (ii) What is the percentage cost of capital to the company for the debenture funds and the equity ?

12

4. What is capital budgeting ? Why is it significant for a firm ? State the various principal methods employed for ascertaining the profitability of a capital expenditure project ? Write short notes on any two methods. 12

UNIT-III

5. The Net Sales of Novex Co. are ₹ 30 crores. EBIT of the company as a percentage of net sales is 12%. The capital employed comprises of ₹ 10 crores of equity, ₹ 2 crores of 13% cumulative preference shares and debt capital of ₹ 6 crores at an annual interest rate of 15%. corporate income tax is 40%. You are required to calculate :
- (i) Calculate the return on equity (ROE) for the company.
- (ii) Calculate the operating leverage of the company given that its combined leverage is 3. 12
6. What do you understand by Capital Structure ? What are the major determinants of capital structure ? Using imaginary figures show how to determine the value of firm under (a) The Net-Income (NI) Approach and (b) The Net Operating Income (NOI) Approach. 12

UNIT-IV

7. How far do you agree that dividends are irrelevant ? Explain the various factors which influence the dividend decision of a firm. 12

8. “Theoretically, retained earnings should be treated as the active decision variable and dividends as the passive residual but the practice does not confirm to this in most cases.” Examine this statement in the light of dividend policy in practise. Also state the variable types of dividend practices prevailed in current scenario ? 12

UNIT-V

9. What is working capital ? On the formation of new business, what considerations are taken into account in estimating the amount of working capital needed ? Explain various factors influencing working capital ? 12
10. What is meant by working capital management ? State the need and scope of working capital management in a business. What are the sources of short-term and long-term working capital ? 12
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