

Question Paper Code : 1817

M.B.A. (5 Year) (Semester-IV) Examination, 2018

FINANCIAL MANAGEMENT

[IMS-544]

Time : Three Hours]

[Maximum Marks : 70

Note : Answer **five** questions in all. Question **No. 1** is **compulsory**. Besides this, attempt **one** question from each Unit.

1. Write short notes on the following : [3x10 = 30]
- (a) Objectives of Finance
 - (b) Role of Finance Manager
 - (c) Concept of Time value of Money
 - (d) Concept of EPS-EBIT analysis
 - (e) Demerits of Payback period
 - (f) Assumptions of NPV
 - (g) Motives of Holding Cash
 - (h) Purpose of Buffer Stock

- (i) Concept of Net Income approach of Capital structure
- (j) Bonus shares

UNIT-I

2. What do you understand by Leverage ? Explain operating and financial leverage with the help of an example. [10]

3. (a) A company issues bond at 10% premium having face value of Rs. 100 for a period of 5 years. The coupon rate is 6%. The redemption value is Rs. 105 at the end of Fifth year. Calculate the cost of the bond. [5]

(b) Calculate WACC of ABC Company based on the given capital structure : [5]

18% Equity capital of Rs. 4,50,000

18% Reserve and surplus of Rs. 1,50,000

11% Preference capital of Rs. 1,00,000

8% Debt of Rs. 3,00,000

The company comes in the tax bracket of 40%.

UNIT-II

4. Rank the following projects on the basis of NPV and IRR : [10]

Year	Project A (Rs.)	Project B (Rs.)
0	-60,000	-60,000
1	24,000	16,000
2	21,000	17,000
3	19,000	19,000
4	17,000	21,000
5	16,000	24,000

Given : Discount rate = 12%

Year :	1	2	3	4	5
PV of Re 1 at 12% :	0.893	0.797	0.712	0.636	0.567

5. Explain the following along with their merits and demerits : [5+5 = 10]

- (a) Risk Adjusted Discount Rate
- (b) Sensitivity analysis

UNIT-III

6. What do you understand by Working Capital Management ? Discuss the various factors affecting

working capital along with current assets financing policies. [10]

7. A company has a demand of 10,000 units in a year. The cost of a unit is Rs. 10. The cost of placing order is Rs. 50 per lot. The holding cost is Rs. 2 per unit. Calculate economic lot size, total cost in a year, number of orders and time between two consecutive orders. [10]

UNIT-IV

8. What are the essentials of Walter's dividend model ? Illustrate with example. Explain its shortcomings. [10]
9. A company has a total investment of Rs. 5,00,000 in assets, and 50,000 outstanding ordinary shares of Rs. 10 per share (par value). It earns a rate of 15% on its investment, and has a policy of retaining 50% of the earnings. If the appropriate discount rate of the firm is 10%, determine the price of its share using Gordon's model. What shall happen to the price of the share if the company has a payout of 80% or 20%. [10]

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