

January - 2007

Subject Code—5879-X

M.B.A. EXAMINATION

(Second Semester)

(Re-appear)

(2 Years—Old Scheme)

CP-202

FINANCIAL MANAGEMENT

Time : 3 Hours

Maximum Marks : 70

Note : Attempt any *Five* questions. All questions carry equal marks.

1. (a) What are the basic financial decisions ?
How do they involve risk-return trade off ?
- (b) In what ways is the wealth maximisation objective superior to the profit maximization objective ? Explain.

P.T.O.

2. Two firms X Ltd. and Y Ltd., sell identical products in the same market. Their budget profit and loss account for the year ending on 30 June, 2005 are as follows :

	X Ltd.		Y Ltd.	
	Rs.	Rs.	Rs.	Rs.
Sales		4,00,000		4,00,000
Less :				
Variable Cost	3,20,000		2,80,000	
Fixed Cost	<u>40,000</u>	<u>3,60,000</u>	<u>80,000</u>	<u>3,60,000</u>
Net Profit		<u>40,000</u>		<u>40,000</u>

You are required to :

- Calculate the Break-Even point for each firm
 - State what shall be the likely effect on the profit of the firm in conditions of
 - increasing demand for product,
 - falling demand for product.
3. (a) A company is expected to pay a dividend of Rs. 4 per share next year. The dividend are expected to grow perpetually at the rate of 8%. Find out the share's price today if the market capitalises dividend at 12% ?

- Explain the concept of valuation of securities. Why is the valuation concept relevant for financial decision-making purpose ?

4. An equipment 'A' has a cost of Rs. 75,000 and net cash flow of Rs. 20,000 per year for six years. A substitute equipment 'B' would cost Rs. 50,000 and generate net cash flow of Rs. 14,000 per year for six years. The required rate of return of both equipments is 11%. Calculate the IRR and NPV for each equipment. Which equipment should be accepted and why ?
- Define Cost of Capital ? Explain its significance in financial decision-making.
 - How is weighted average cost of capital calculated ? What weights should be used in its calculations ?
6. Explain the position of M-M in the issue of an optimum capital structure, ignoring the corporate income taxes. Use an illustration to show how home-made leverage by an

individual investor can be replicate the same risk and return as provided by the levered firm.

7. Discuss features, merits and demerits of the following source of finance :
 - (a) Retained Earnings
 - (b) Deep discount bonds
 - (c) Convertible debentures
 - (d) Trade Credit Limit
 - (e) Call Money Market.
8. (a) What is the concept of Working Capital Cycle ? Why is it important in working capital management ? Give an example to illustrate the operating cycle concept.
(b) How is working capital affected by :
 - (i) Sales
 - (ii) Technology and Production Policy
 - (iii) Inflation ? Explain.