(2063)

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M.B.A. 2nd Semester Examination

Financial Management (OS)

204

Time : 3 Hours **Max. 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.

UNIT - I

1. What is financial management? How does a modern financial management differs from traditional financial management. **(12)**

2. Explain as to how the wealth maximisation objective is superior to profit maximisation objective. **(12)**

UNIT - III

3. Capital budgeting is the total process of generating, evaluating, selecting and follow-up of capital expenditure alternatives. Explain the statements. **(12)**

4. The capital structure of Mauli Ltd. is as under:

	Rs.
2000 6% Deb. of Rs. 100 each (First issue)	2,00,000
1000 7% Deb. of Rs. 10 each (Second issue)	1,00,000
2000 8% cum pref. shares of Rs. 100 each	2,00,000
4000 8% cum pref. shares of Rs. 1000 each	4,00,000
Retained earnings	1,00,000

The earnings per share of the company in the past many years has been Rs. 15. The shares of the company are sold in the market at book value. The company's tax rate is 50% and shareholders' personal tax lability is 10%. Find out the weighted overage cost of capital. **(12)**

UNIT - III

5. What is meant by 'Operating Leverage' and 'Financial Leverage'? Explain their utility. **(12)**

6. Ashok Ltd. has expected a net operating income of Rs. 300000 and equity capitalisation rate is 10%. It has a debt of Rs. 500000 at 8%, compute the value of the firm and overall (weighted overage) cost of capital according to Net Income Approach. Income Tax may be ignored. **(12)**

UNIT - IV

7. Explain critically the Walter Formulae of dividend policy. **(12)**

8. The details regarding three companies are given below.

Growth Ltd.	Normal Ltd.	Declining Ltd.
R > ke	r = ke	r < ke
r = 0.15	r = 0.10	r = 0.08
ke = 0.10	ke = 0.10	ke = 0.10
E = Rs. 10	E = Rs. 10	E = Rs. 10

Find out market price of an equity share of each of these companies applying Gordon's formula when dividend payout ratio is (i) 40% (ii) 60% and 90%. Comment on the conclusion drawn. **(12)**

UNIT - V

9. What are the methods used for estimating working capital requirements of a firm? **(12)**

10. "Inadequate working capital is disastrous whereas redundant working capital is a criminal waste". Critical examine this statement. **(12)**