



PG - 099

II Semester M.B.A. (Day) Degree Examination, June/July 2013
(2007 - 08 Scheme)
MANAGEMENT
Paper - 2.2 : Financial Management

Time : 3 Hours

Max. Marks : 75

SECTION - A

Answer any six of the following. Each question carries 2 marks.

(6x2=12)

1. a) What do you mean by Financial Management ?
- b) What is the significance of Financial Leverage ?
- c) What do you mean by Capitalization ?
- d) What is Working Capital Policy ?
- e) Define IRR.
- f) What do you mean by Stock dividend ?
- g) What is EOQ ?
- h) What are the motives of holding cash ?

SECTION - B

Answer any 3 questions. Each carries 8 marks.

(3x8=24)

2. Explain the different dividend policies practiced in India.
3. a) From the following capital structure of a Co., calculate weighted average cost of capital.

Source	Book Value	After Tax cost (%)
Equity Share Capital (Rs. 10)	90,000	14%
Retained earnings	30,000	13%
Pref. share capital	20,000	10%
Debenture	60,000	5%

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- b) Calculate operating and financial leverage from the following data :
- Interest Rs. 5,000
 Sales Rs. 75,000
 Variable cost Rs. 30,000
 Fixed cost Rs. 20,000.
4. a) Prepare an estimate of working capital requirement from the following data of a trading concern :
- Project annual sales 80000 units
 - Selling price Rs. 8 per unit
 - Percentage net profit as sales 20
 - Average credit period allowed to customers – 10 weeks
 - Average credit period allowed to suppliers – 8 weeks
 - Average stock holding in terms of sales requirement – 10 weeks
 - Allow 20% for contingencies.
- b) The management of Vibgyor Fabrics subscribes to the NOI approach and believes that its cost of debt and overall cost of capital will remain at 9% and 12% respectively. If the debt-equity ratio is 0.8, what is the cost of equity ?
5. Consider two bonds P and Q :

	Bond P	Bond Q
Face value	1,000	1,000
Coupon (Interest rate)	16%	12%
Years to maturity	8	5
Redemption value	1,000	1,000
Current market price	Rs. 918.5	Rs. 761

What are the yield to maturity, durations and volatility of these bonds ?

6. Discuss the M. M. approach to the theory capital structure.



SECTION - C

Answer any two questions. Each question carries 12 marks. (2x12=24)

- 7. Explain the factors which determine the working capital requirements of a firm.
- 8. Using Walter's Model calculate price of equity shares of the following three companies :

	X	Y	Z
Cost of capital	10%	10%	10%
Rate of return expected	5%	10%	15%
Earning per share	Rs. 10	Rs. 10	Rs. 10

The payment of dividend is as follows :

Situation :

- i) 25%
 - ii) 75%
 - iii) 100%
9. Satisha Ltd., Company has equity share capital Rs. 5,00,000 divided into shares of Rs. 100 each. It wishes to raise further Rs. 3,00,000 for modernisation plans. The company plans the following schemes :
- a) All Equity Shares
 - b) Rs. 1,00,000 in equity shares and Rs. 2,00,000 in debt at 10% p.a.,
 - c) All debt @ 10% p.a.
 - d) Rs. 1,00,000 in Equity Shares and Rs. 2,00,000 in Preference Share Capital with rate of dividend at 8%.

The company has estimated EBIT at Rs. 1,50,000. The Corporate rate of tax is 50%. Calculate EPS in each case. Give a comment as to which capital structure is suitable.