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MBA/MBA (IB) (Sem.–2)

FINANCIAL MANAGEMENT

Subject Code : MB-205 (2009 to 2011 Batch)

Paper ID : [C0175]

Time : 3 Hrs. **Max. Marks : 60**

INSTRUCTION TO CANDIDATES :

1. **SECTION-A is COMPULSORY consisting of TEN questions carrying TWO marks each.**
2. **SECTION-B contains SIX questions carrying TEN marks each and students has to attempt any FOUR questions.**

SECTION-A

1. Write briefly :

   a) Profitability Index

   b) Preference Share

   c) Operating Leverage

   d) Trading on Equity

   e) Pay Out Ratio

   f) Home made Dividend

   g) Bonus Shares

   h) Market Risk

   i) Independent Projects

   j) Arbitrage

SECTION-B

2. What do you mean by Fair Value of an equity share? What are the different approaches for valuation of equity shares?

3. A company has on its books the following amounts and specific costs of each type of capital:

Type of capital	Book value Rs.	Market Value Rs.	Specific Costs
Debt	50,00,000	47,50,000	6.0%
Preference Capital	16,25,000	16,50,000	8.0%
Equity Capital	75,00,000	1,75,00,000	13.0%
Retained Earnings	22,50,000		12.0%

Determine the weighted average cost of capital using :

(a) Book value weights

(b) Market value weights. How are they different?

Can you think of a situation where the weighted average cost of capital would be the same using either of the weights?

4. What do you mean by lease financing? Discuss the procedure for evaluation of a lease agreement.

5. What do you mean by a logical dividend decision? Explain the views of Modigliani and Miller on the significance of dividend decision.

6. Compare and contrast NPV and IRR methods of capital budgeting. Which of the two is better and why?

7. A firm is considering to reduce credit period from 45 days to 30 days. It currently sells total 18,00,000 units for Rs. 6 each. The average age of receivables is 40 days; bad debts are 1%; variable cost per unit is Rs. 4 and the average cost per unit is Rs 4.60. The change in credit period is expected to decrease sales to 16,00,000 units; bad debts will reduce to 1.5 % and the average collection period to 35 days. Assume the required return on investment is 15%. Should the firm carry out the proposal?