00233

MASTER OF BUSINESS ADMINISTRATION (MBAEV)

Term-End Examination

December, 2013

MCN-044 : FINANCIAL MANAGEMENT

Time : 3 hours *Maximum Marks : 100*

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

1. (a) What do you understand by the cost of capital ? How is the cost of preference capital and retained earnings determined ? Illustrate. **10+10=20**

(b) Define cash management. Also discuss its various objectives.

2. What is the concept of working capital management ? Explain various factors that influence working capital requirements of a company. **20**

3. (a) Define Economic Order Quantity. What assumptions are made in determination of EOQ ? **10+10=20**

(b) What is NPV ? Explain the steps involved in computing the NPV.

4. Write short notes on **any four** of the following : **4x5=20**

   (a) Project financing
   (b) Capital structure
   (c) Yield to maturity method
   (d) Capital budgeting process
   (e) Financial leverage
   (f) Dividend signalling theory

5. (a) Explain the Capital Asset Pricing Model (CAPM) approach for calculating the cost of equity.

   (b) Discuss various methods of Capital Budgeting. **10+10=20**

6. (a) Find out the effective rate of interest in the following cases :

      (i) Case A : Nominal rate of interest = 8% compounded quarterly.

      (ii) Case B : Nominal rate of interest = 12% compounded 6 times a year.

   (b) The risk free return is 8%. The required return on a stock is 16%, while its beta is 1.5. What is the return on the market portfolio ? **10+10=20**

7. (a) What is the expected growth rate of a stock currently selling for Rs.32, with an expected dividend of Rs. 4 and a required rate of return of 16% ? Assume that the constant growth model applies.

   (b) A company's bonds have a par value of Rs. 100, maturity in 8 years, and carry a coupon rate of 14 percent payable semi-annually. If the appropriate discount rate is 16 percent, what price should the bond command in the market place ? **10+10=20**

8. Given below selected financial data of ABC Ltd : **20**

Variable expenses as percent of sales $\rightarrow 66\frac{2}{3}\%$

Income tax rate $\rightarrow$ 50%

Degree of operating leverage $\rightarrow 5$

Degree of financial leverage $\rightarrow 3$

Interest expenses $\rightarrow$ Rs. 20 lakhs.

Company has not raised funds through issue of preference capital. What are the fixed expenses and profit after tax of the company ?