MBA 2nd Semester Examination, Dec 2019 (DDE)
[Session: Jan 2019- Dec 2020]

Subject- Financial Management

Paper – MBD-203

Time-3 Hours **Full Marks: 80**

The figures in the margin indicate full marks.
Candidates are required to give their answers in their own words as far as practicable

Group-A

Answer any six questions 5×6=30

1. Explain the modern objective of financial management.
2. What do you mean by discounting? How is it different from compounding?
3. Distinguish between Capital Market and Money Market.
4. A firm had paid a dividend of ₹ 5 per share last year. The estimated rate of growth of dividend for the company is 8% p.a.
   (a) Determine the market price of equity share given that the required rate of return is 18%.
   (b) Also calculate the share price if growth rate falls to 5%?
5. A Ltd. has a total investment of ₹ 10,00,000 in assets and 10,000 outstanding shares of ₹ 100 each. Its rate of return is 24% and it has a policy of retaining 50% of the earnings. If the cost of capital is 18%, determine the market price of the share using Gordon's Dividend Model. How would the market price change if the payout ratio is 90%?
6. What is a bond? Discuss its features.
7. Explain 'Profitability Index' as a tool of evaluating long-term projects.
8. Write a short note on 'Lease financing'.

Group-B

Answer any five questions 10×5=50

9. What is meant by working capital? Explain the various factors that affect the working capital requirement of a firm.
10. Describe any four sources that an existing company can access to procure long-term finance required for its expansion.
11. (a) Distinguish between Capital Structure and Financial Structure of a firm.
    (b) 'Financial leverage exists only when there are fixed operating costs' - Comment.
12. Describe the various costs that are associated with handling of inventories.

Please Turn Over

13. M/s Akbar Bros. has to make a choice between two competing projects which require an equal investment of ₹ 50,000 and are expected to generate net cash flows as under:

(Figures in ₹'000)

Project I	10,000	12,000	18,000	25,000	8,000	4,000
Project II	25,000	15,000	12,000	6,000	10,000	5,000

The cost of capital of the company is 10%. Evaluate the projects using NPV criterion.

14. Discuss the different models of computation of cost of debt with the help of a hypothetical illustration.

15. From the following information relating to Nigam Ltd., determine the WACC at various capital structures. Also identify the optimum capital structure:

Debt as % of total capital employed	**Before tax cost of debt (%)**	**Cost of equity (%)**
0	12	15
10	12	15
20	12	16
30	13	17
40	15	18
50	16	19
60	18	22
70	21	24

Corporate tax may be taken at 50%.