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Question Paper Code : 75511

M.B.A. DEGREE EXAMINATION, AUGUST 2012.

Second Semester

DBA 1654 — FINANCIAL MANAGEMENT

(Regulation 2007/2009)

Time : Three hours

Maximum : 100 marks

(Present value tables are required)

Answer ALL questions.

PART A — (10 × 2 = 20 marks)

1. Define time value of money.
2. Distinguish between bond and equity share.
3. Define inflation.
4. What is cost of capital?
5. Define operating leverage.
6. Define dividend.
7. What is EOQ?
8. Define gross working capital.
9. What is a lease?
10. What is venture capital?

PART B — (5 × 16 = 80 marks)

11. (a) What is valuation of equity shares? What are the models of valuation of shares? Explain any one of them.

Or

- (b) What is systematic risk? Illustrate the method of calculation of Beta using an example.

12. (a) Novel Investment Ltd accepts Rs. 10,000 at the end of every year for 20 years and pays the investor Rs. 8,00,000 at the end of the 20th year. Innovative Investment Ltd accepts Rs. 10,000 at the end of every year of 20 years and pays the investor Rs. 15,00,000 at the end of the 25th year. Which is the best investment alternative? Use present worth method with $i = 12\%$.

Or

- (b) A person is planning a new business. The initial outlay and cash flow pattern for the new business are as listed below. The expected life of the business is five years. Find the rate of return for the new business.

Period	0	1	2	3	4	5
Cash flow	-1,00,000	30,000	30,000	30,000	30,000	30,000

13. (a) The desired mix of the capital of a project along with the respective costs are shown below. Find the weighted average cost of the capital.

Years	Description of component	Proportion of capital (W_i)	Cost (R_i)
1	Equity shares	0.18	20%
2	Preference shares	0.12	15%
3	Retained earnings	0.25	10%
4	Debt	0.45	8%

Or

- (b) (i) The current market price of an equity share is Rs. 120. The dividend at the end of year 1 is Rs. 20. The constant annual growth rate of the dividend from year 2 onwards is 5%. Find the cost of the equity share.
- (ii) The current market price of preference share of a project is Rs. 100. The maturity period is 15 years and the expected dividend Per year is Rs. 15. The redemption price of the preference share is Rs. 98. Find the cost of the preference share.
14. (a) Discuss the factors influencing working capital requirements.

Or

- (b) Discuss the adjusted net income method of cash fore casting with example.
15. (a) List and explain the sources of long term sources of finance.

Or

- (b) (i) Discuss the rights of equity shareholders.
(ii) Discuss the features of preference shares.