Reg. No. :

Question Paper Code : 85511

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

Second Semester

DBA 1654 — FINANCIAL MANAGEMENT

(Regulation 2007/2009)

Time : Three hours | Maximum : 100 marks

Answer ALL questions.

PART A — ($10 \times 2 = 20$ marks)

1. Distinguish between wealth maximisation and profit maximisation.

2. What is financial planning?

3. Explain the consequences of over capitalisation.

4. What is 'optimum capital structure'?

5. What are the different types of leverages?

6. What do you understand by working capital?

7. Define inventory management.

8. Distinguish between shares and debentures.

9. What is a stable dividend policy?

10. What does the profitability index signify?

PART B — (5 × 16 = 80 marks)

11. (a) Discuss the relationship between the Risk and Return.

Or

(b) Rakesh corporation is previous dividend, Do, was Rs. 12.00. Earnings and dividends are expected to grow at a rate of 10 percent thereafter. The required rate of return on Rakesh's stock is 15 percent. What should be the market price of Rakesh's stock now?

12. (a) "Despite all limitations of the method of pay-back period, it has still significance in project appraisal' Discuss.

Or

(b) The following particulars about the existing structure of 'X' company limited are given below :

	Amount	Before – tax cost
	Rs.	(%)
Equity share capital	4,00,000	12%
Preference share capital	50,000	7%
Long term debt	3,00,000	8%

The company wants to undertake at expansion project costing Rs. 2,50,000 which can be taken from a financial institution at 10%. The minimum acceptable rate of return from the new project is based on the company's cost of capital. What is the minimum acceptable rate of return to the company in the case of the proposed expansion projects? You may assume a 50% tax rate.

13. (a) Critically examine the assumptions underlying the irrelevance hypothesis of Modigliani and Miller regarding dividend distribution.

Or

(b) An analytical statement of *Y* Ltd., is as follows :

	Rs.
Sales	9,60,000
Variable costs	5,60,000
Revenue before FC	4,00,000
Fixed cost	2,40,000
	1,60,000
Interest	60,000
Earnings before tax	1,00,000
Tax	50,000
Net income	50,000

Compute the degree of

(i) Operating leverage

(ii) Financial leverage and

(iii) The composite leverage from the above data.

14. (a) What factors determine the size of the investment a company makes in Accounts receivables? Which of these factors are under the control of the Finance manager?

Or

(b) Gopal and Co., are engaged in large scale retail business. From the following information, you are required to forecast their working capital requirements.

Project annual sales	Rs. 130 lakhs
Percentage of net profit on cost of sales	25%
Average cost period allowed to debtors	8 weeks
Average cost period allowed to creditors	4 weeks
Average stock carrying (in terms of sales requirements)	8 weeks

Add 10% to computed figures to allow for contingencies.

15. (a) What is ownership capital? How does it differ from creditorship capital?

Or

(b) Leasing finance has proved its unique adaptability to various financial problems. Discuss its merits as compared to other methods of financing.