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Total Number of Pages: 03

**MBAP
PTMNG203**

**2nd Semester Regular Examination 2016-17
FINANCIAL MANAGEMENT**

Branch: MBA(PT)

Time: 3 Hours

Max Marks: 100

Q.CODE:Z1229

**Answer Question No.1 and 2 which are compulsory and any four from the rest.
The figures in the right hand margin indicate marks.**

- Q1** **Choose the correct alternative:** **(2 x 10)**
- (i)** Financing Decision is related:
 - (a) Capital Structure
 - (b) Purchase of fixed assets
 - (c) Dividend distribution
 - (d) Maintenance of accounts

 - (ii)** Capital budgeting process starts:
 - (a)With availability of capital
 - (b)With project evaluation
 - (c)With knowledge of project identity
 - (d)With execution

 - (iii)** Soloman Ezra has called cost of capital as:
 - (a)Interest rate
 - (b)Stock exchange value
 - (c)Reward of Risks
 - (d)Cut off rate of capital expenditure

 - (iv)** From investor's point of view, the cost of capital is:
 - (a)Yield of capital sacrifice
 - (b)Market value
 - (c)Interest rate
 - (d) None of these

 - (v)** The function of financial leverage is:
 - (a)Financial arrangement
 - (b)Debt redemption
 - (c)Analysis of effect of fixed charges bearing sources of capital on profits
 - (d)Effect of equity share capital on profits

- (vi) The meaning of capital structure is:
 - (a) Ratio of long-term sources of capital
 - (b) Equity and pref. share capital
 - (c) Equity + Pref. share capital + Reserves + Long-term debt
 - (d) None of the above

- (vii) High gearing means:
 - (a) Equity share capital is less than fixed interest bearing capital
 - (b) Equity share capital is more
 - (c) Both are equal
 - (d) Gearing is not related to capital structure

- (viii) Working Capital means:
 - (a) Total of current assets
 - (b) Excess of current assets over current liabilities
 - (c) That portion of assets which changes in business operation
 - (d) All the above

- (ix) Fixed working capital is:
 - (a) Minimum stock of raw materials
 - (b) Minimum balance of Bank
 - (c) Salaries of workers
 - (d) All the above

- (x) Dividend is not relevant in determining the value of the company." Who holds this opinion?
 - (a) J.E. Walter
 - (b) M.J. Gordon
 - (c) Ezra Solomon
 - (d) Modigliani-Miller

Q2 **Answer the following questions:** **(2x10)**

- a)** What is financing decision?
- b)** What is capital rationing?
- c)** How is cost of debt capital computed?
- d)** How is weighted average cost of capital computed?
- e)** What is operating leverage?
- f)** What is meant by optimum capital structure?
- g)** Explain the conservative dividend policy
- h)** What is Walter's formula?
- i)** State the Gordon's formula?
- j)** Define working capital as per quantitative approach.

Q3 What do you mean by Financial Management? What is the relationship of finance functions to production and marketing functions? **(15)**

Q4 Zodiac Ltd is considering 3 projects X, Y, Z. Following are the particulars in respect of them: **(15)**

	Project- X	Project-Y	Project - Z
Cost (Rs)	1.00 lakh	1.4 Lakh	1.4 Lakh
Economic life (yrs)	10	10	10
Scrap value (Rs)	5,000	10,000	14,000
Annual savings (Rs)	16,000	25,000	20,000

Recommend which is the best of these projects using:

Payback period

Post payback period

Index of post payback profit

Q5 Define cost of capital. How will you determine the cost of capital from different sources? **(15)**

Q6 Calculate operating leverage, financial leverage and combined leverage from the data given below: **(15)**

- i. Sales 100,000 units @ Rs. 2 per unit
- ii. Variable cost is Rs. 0.70 pm
- iii. Fixed cost is Rs. 1, 00,000.00
- iv. Interest charge on debt capital is Rs. 3,668.00

Q7 Critically examine the Net Income and Net operating income approach to the capital structure. **(15)**

Q8 Explain the different types of dividend policies. What are the advantages of a stable dividend policy? **(15)**