SECTION C — (1 × 20 = 20 marks)

(Compulsory)

17. A company has a total investment of Rs. 5,00,000 in assets and 50,000 outstanding ordinary shares at Rs. 10 per share (par value). It earns a rate of 15 percent on its investment, and has a policy of retaining 50 percent of the earnings. If the appropriate discount rate of the firm is 10 percent, determine the price of its shares using Gordon's model. What shall happen to the price of the share if the company has a pay out of 80 percent or 20 percent?

MBAC 2001/MBLC 1003

M.B.A. DEGREE EXAMINATION, JUNE 2016.

Second Semester

General

FINANCIAL MANAGEMENT

Time : Three hours Maximum : 100 marks

SECTION A — (5 × 6 = 30 marks)

Answer any FIVE questions.

1. Define the scope of financial management. What role should the financial manager play in an enterprise?

2. Explain the significance of cost of capital in financial decision making.

3. State the features of capital budgeting decisions.

4. Explain the merits and demerits of IRR method.

5. What is meant by profitability index?

6. Distinguish between operating and financial leverage.

7. Discuss the issues in dividend decisions.

8. What are the various sources of working capital?

SECTION B — ($5 \times 10 = 50$ marks)

Answer any FIVE questions.

9. How is the cost of equity calculated using the CAPM? What is the difference between this approach and the constant growth approach?

10. How is weighted average cost of capital calculated? What weights should be used in its calculation?

11. A company is considering the following investment projects.

Projects	C_0	C_1	C_2	C_3
A	–10,000	+10,000		
B	–10,000	+17,500	+7,500	
C	–10,000	+12,000	+4,000	+12,000
D	–10,000	+10,000	+3,000	+13,000

Rank the projects according to each of the following methods :

(a) Pay back

(b) ARR

(c) IRR and

(d) NPV (assuming discount rates of 10 and 30 percent).

12. Two firms A and B have the following information:

(Rs. lakhs)

	Sales	Variable costs	Fixed costs
Firm A	1800	450	900
Firm B	1500	750	375

You are required to calculate the

(a) profit to sales ratio

(b) break-even point

(c) the degree of operating leverage for both firms.

13. Illustrate the MM hypothesis on irrelevance of capital structure.

14. State the assumptions of Walter's model. Illustrate Gordon's model of dividend relevance.

15. Describe the operating cycle in estimation of working capital requirement.

16. Firm X has current assets of Rs. 500 lakh and current liabilities of Rs. 250 lakh. Firm Y has current assets of Rs. 700 lakh and current liabilities of Rs. 450 lakh. For both firms, calculate

(a) gross working capital

(b) net working capital

(c) current ratio

(d) net working capital ratio.