

**Second Semester M.B.A. (Distance Mode) Degree
Examinations June 2009
(New Scheme)**

MBA DP - 203 : FINANCIAL MANAGEMENT

Time : 3 Hours

Max. Marks : 80

SECTION-A

5x2=10

Answer the following questions in two or three sentences each one carries TWO marks.

1. a) Define financial management.
- b) State four important characteristics of financial planning?
- c) What do you mean by capitalization?
- d) State the assumptions of NOI approach.
- e) Define JIT.
- f) Define IRR.

SECTION-B

5x7=35

Answer any FIVE question, each question carries SEVEN marks.

2. A firm finances all its investments by 40% and 60% equity. The estimated required ROR on equity is 20% after taxes and that of debt is 8% after taxes. The firm is considering an investment proposal costing Rs. 40,000/- with an expected return that will cost forever. What amount (in rupees) must the proposal yield per year so that the market price of the share does not change? Show calculations and prove your point.

3. A Ltd. is proposing to take up a project which required an investment of Rs. 40,000/-. The net income before depreciation and tax is estimated as follows :

Year	1	2	3	4	5
Cash flows	10,000	12,000	14,000	16,000	20,000

Depreciation is to be charged on straight line basis. Tax rate is 50% calculate ARR and PBP.

4. "Wealth maximization is always hindered by profit objectives of stake holders" elucidate.
5. "Cash budgeting or short term cash forecasting is the principal tool of cash management". Discuss.
6. The BLM corporation is a new firm that wishes to determine an appropriate capital structure. It can issue 8% debt and 6% preferred and has a 50% tax rate. The initial capitalization of the firm will be Rs 50 lakhs. The possible capital structure is :

Plan	Debt	Preferred	Equity
1	0	0	100%
2	30%	0	70%
3	30%	20%	50%
4	50%	0%	50%
5	50%	20%	30%

7. The return of two assets under few possible states of nature are given below :

State of nature	Prob	Return Asset 1	Return Asset 2
1	0.10	5%	0%
2	0.30	10%	8%
3	0.50	15%	18%
4	0.10	20%	26%

- What is the SD of returns.
- Calculate the covariance.
- Coefficient of correlation.

SECTION-C

Answer the following questions. Question No. 8 and 9 carries TEN marks each and question No.10 carries 15 marks. 2x10+15=35

8. a) Describe the scope and various functions of financial management. What is the changing role of financial manager?

OR

Define factoring. What are the process, benefits and types of factoring services available?

9. a) Explain various factors affecting dividend policies of a company. What is optimum capital structure?

OR

XYZ corporation is considering relaxing its present credit policy and is in the process of evaluating two proposed policies. Currently the firm has annual credit sales of Rs 50 lakh and accounts receivable turnover ratio of 4 times a year. The current level of loss due to bad debt is Rs. 1,50,000. The firm is required to give a return of 25% on the investment in new accounts receivable. The company's VC are 70% of the selling price. Given the which is the better option.

	Present policy	Option I	Option II
Annual credit sales	50,00,000	60,00,000	67,50,000
A/R turnover	4 times	3 times	2.4 times
Bad debts losses	1,50,000	3,00,000	4,50,000

10. a) Prepare a elaborative write up of current status of Indian Financial markets and provide for what potential growth prospects it has.

b) With Imaginary figures explain the concept of dividend relevance and dividend irrelevance model.

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