

MBA 06

M.B.A. DEGREE EXAMINATION, JUNE 2010.

Second Semester

Management

Paper VI — FINANCIAL MANAGEMENT

Time : Three hours

Maximum : 100 marks

PART A — (5 × 6 = 30 marks)

Answer any FIVE out of the following.

1. **What are the tasks of financial management?**
2. **What do you mean by capital budgeting?**
3. **What are the various methods of assessing working capital requirements?**
4. **What is meant by theory of irrelevance?**
5. **How is the degree of operating leverage measured?**
6. **What is meant by capital rationing?**
7. **What is meant by factoring services?**
8. **How cost of debt is calculated?**

PART B — (5 × 10 = 50 marks)

Answer any FIVE out of the following.

9. Explain the significance of Walter's model.
10. Describe the traditional view on the optimum capital structure.
11. How is the weighted average cost of capital calculated? What weights should be used in its calculation?
12. Under what circumstances do the net present value and internal rate of return methods differ?
13. In what respect is the wealth maximisation superior to the profit maximisation?
14. Explain the rationale as the Tandon Committee's recommendations.
15. A company raised preference share capital Rs. 1,00,000 by issue of 10% shares of Rs. 10 each. Cost of issue Re. 1 per share. Calculate the cost of preference capital when they are issued (a) at par (b) at premium of 10% (c) at a discount of 10%.
16. X company earns Rs. 5 per share, is capitalised at the rate of 10% and has a return on investment of 18%. According to Walter model what should be the price per share at 25% dividend pay out ratio?

PART C — (1 × 20 = 20 marks)

Compulsory.

17. A company is considering an investment proposal involving is Rs. 50,000. The machine has a life of 5 years. The Company's tax rate is 55%. The firm uses straight line method of depreciation. The estimated cash flows before tax from the investment proposal are as follows :

Year	Cash flows
	Rs.
1	10,000
2	11,000
3	14,000
4	15,000
5	25,000

Calculate NPV at 10% discount rate. (PV factor at 10% = years 1(0.909), 2(0.826), 3(0.751), 4(0.683), 5(0.621)).