

MS-109

Financial Management

वित्तीय प्रबंध

Master of Business Administration

(MBA/DIM-16/17)

2nd Semester, Examination, 2019 (June)

Time : 3 Hours]

Max. Marks : 80

Note : This paper is of Eighty (80) marks divided into three (03) sections A, B and C. Attempt the questions contained in these sections according to the detailed instructions given therein.

SECTION–A

(Long Answer Type Questions)

Note : Section 'A' contains four (04) long answer type questions of Nineteen (19) marks each. Learners are required to answer any two (02) questions only.

(2×19=38)

1. Why is dividend policy important for a firm ? Also discuss the various determinants of a dividend policy in a company.
2. Explain the importance of working capital management. What are the techniques that are used for planning and control of working capital ?
3. Do the IRR and NPV methods always reach the same conclusions with respect to the selection of mutually exclusive proposals ? Which method do you think, is more consistent with the objective of maximisation of wealth of share holders ?
4. The following figures are taken from the current balance-sheet of Alpine Ltd.

Capital	₹ 8,00,000
Share premium	₹ 2,00,000
Reserves	₹ 6,00,000
Shareholder's funds	₹ 16,00,000
12% perpetual debentures	₹ 4,00,000

An annual ordinary dividend of ₹ 2 per share has just been paid. In the past, ordinary dividends have grown at a rate of

10 percent per annum and this rate of growth is expected to continue. Annual interest has recently been paid on the debentures. The shares are currently quoted at ₹ 27.50 and the debentures at 80 per cent. Ignore taxation, you are required to estimate the WACC (based on market values) for Alpine Ltd.

SECTION-B

(Short Answer Type Questions)

Note : Section 'B' contains eight (08) short answer type questions of eight (08) marks each. Learners are required to answer any four (04) questions only. (4×8=32)

1. Explain as to how the wealth maximisation objective is superior to profit maximisation object.
2. Explain the relevance of time value of money in financial decisions.
3. Discuss the dividend-price approach, and earnings price approach to estimate cost of equity capital.
4. Discuss the proposition made in Modigliani and Miller approach in capital structure theory.

5. Discuss the risk-return considerations in financing of current assets.
6. Distinguish between Net Present value and Internal rate of return.
7. Determine the market value of equity shares of the company from the following information :

Earnings of the company	₹ 5,00,000
Dividend paid	₹ 3,00,000
Number of shares	1,00,000
P/E ratio	8
ROI	15%

Are you satisfied with the current dividend policy of the firm ? If not, what should be the optimal dividend payout ratio ? Use Walter's model.

8. A, B, C company buys an item costing ₹ 125 each in lots of 500 boxes which is a 3 month supply and the ordering cost is ₹ 150. The inventory carrying cost is estimated at 20% of unit value. What is the total annual cost of the existing inventory policy ? How much money could be saved by employing the EOQ ?

SECTION-C
(Objective Type Questions)

Note : Section 'C' contains ten (10) objective type questions of one (01) mark each. All the questions of this section are compulsory. (10×1=10)

Indicate whether the following statements are True or False :

1. The cost of capital is the required rate of return to maintain the value of the firm. (True/False)

2. Time value of money is ignored in principle of profit maximisation. (True/False)

3. Payback technique is based on discounting technique. (True/False)

4. Retained earnings have implicit cost only. (True/False)

5. Financial leverage is always beneficial to the firm. (True/False)

Fill in the blanks :

6. Relationship between change in sales and change in EPS is measured by _____.
7. Financial breakeven level of EBIT is one at which E.P.S. is _____.

Choose the correct option :

8. Advantage of debt financing is :
 - (a) Interest is tax deductible.
 - (b) It reduces WACC.
 - (c) Does not dilute owners control.
 - (d) All of the above.
9. Which of the following is not affected by capital structure ?
 - (a) Total tax liability
 - (b) Return on equity
 - (c) Operating profit
 - (d) Earnings per share.

10. Stock split is a form of :

- (a) Financial structuring
 - (b) Bonus issue
 - (c) Dividend payment
 - (d) Dividend in kind.
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