MBA 2nd Semester Examination
June, 2014
Subject – Financial Management
Subject Code – MSL-508

Time Allowed: 03 hours. Maximum Marks: 100

Before answering the question paper the candidate should ensure that they have been supplied the correct question paper. Complaints in this regard, if any, shall not be entertained after the examination.

Note: All questions carry equal marks. Ques. No. 1 is Compulsory and attempt two questions from each section.

1. a) What is financial management process?
   b) What are financial and operating leverages?
   c) What is financial leverage?
   d) Define decision tree analysis with an example
   e) Write a note on ‘trading on equity’. [5x4=20]

SECTION – A

2. (a) X ltd issues 50000, 8% debentures of Rs. 10 each at a premium of 10%. The costs of flotation are 2%. The rate of tax applicable to the company is 60%. Compute the cost of debt capital.
   (b) A company has 9% Irredeemable debt of Rs 5,00,000. The tax rate is 35%. Determine the cost of Capital assuming the debt is issued at
      i) Par
      ii)Discount of 5%
      iii)Premium of 10% [10x2]

3. “Finance function is concerned with allocating funds to specific assets and obtaining the best mix of financing in relation to the overall valuation of the firm.” Discuss. [20]

4. a) Briefly explain the three stages of Walter model of dividend along with its assumptions. [10]
   b) How far do you agree that dividends are irrelevant? [10]

SECTION – B

5. Define the term working capital. What factors would you take into consideration in estimating the working capital needs of a concern? [20]

6. Write a detailed note on the computation of cost of individual components of capital. [20]

7. Write short notes on:
      a) Pay-back period method.
      b) NPV
      c) IRR
      d) Accounting rate of return method. [4x5=20]