

Printed Pages : 7



MBA027

(Following Paper ID and Roll No. to be filled in your Answer Book)

**PAPER ID : 270214**

Roll No.

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**M. B. A.**

(SEM. II) THEORY EXAMINATION, 2014-15

**FINANCIAL MANAGEMENT**

Time : Hours]

[Total Marks :

**SECTION - A**

1 Answer all questions. All questions carry equal marks.

a) The technique of adjusting time value of money is \_\_\_\_\_.

- (i) Period Technique
- (ii) Fixed Time Technique
- (iii) Present Value Technique
- (iv) Future Value Technique

b) Accounting Ratios are important tools used by

- (i) Managers
- (ii) Researchers
- (iii) Investors
- (iv) All of the above

- c) \_\_\_\_\_ is concerned with maximization of a firm's earnings after taxes.
- (i) Shareholder wealth maximization
  - (ii) Profit Maximization
  - (iii) Stakeholder maximization
  - (iv) EPS maximisation
- d) To increase a given future value, the discount rate should be adjusted \_\_\_\_.
- (i) Upward
  - (ii) Downward
  - (iii) First upward and then downward
  - (iv) None of the above
- e) Interest paid (earned) on both the original principal borrowed (lent) and previous interest earned is often referred to as \_\_\_\_.
- (i) Present Value
  - (ii) Simple Interest
  - (iii) Future Value
  - (iv) Compound Interest
- f) An aggressive common stock would have a 'beta'
- (i) equal to zero
  - (ii) greater than one
  - (iii) equal to one
  - (iv) less than one
- g) Unsystematic Risk is also known as :
- (i) Systematic Risk
  - (ii) Market Risk
  - (iii) Unique Risk
  - (iv) None of these

- h) XYZ is an oil based business company, which does not have adequate working capital. It fails to meet its current obligation, which leads to bankruptcy. Identify the type of decision involved to prevent risk of bankruptcy.
- (i) Investment Decision
  - (ii) Dividend Decision
  - (iii) Liquidity Decision
  - (iv) Finance Decision
- i) Which of the following investments is not acceptable as a way for companies to invest short term cash surpluses?
- (i) Bank Deposit Account
  - (ii) Ordinary Shares
  - (iii) Certificate of Deposit
  - (iv) Treasury Bills
- j) Which Investment appraisal method is generally considered the best model for long range decision making
- (i) Payback
  - (ii) Accounting Rate of Return
  - (iii) Internal Rate of Return
  - (iv) Net Present Value
- k) Which of the following is the short term sources of funds ?
- (i) Trade credit
  - (ii) Share
  - (iii) Debenture
  - (iv) None of the above

- l) Cost of Capital of a firm is:
  - (i) Maximum rate of return expected by its investors
  - (ii) Minimum rate of return expected by its investors
  - (iii) Average rate of return expected by its investors
  - (iv) Moderate rate of return expected by its investors
- m) What is a capital allowance ?
  - (i) A government grant
  - (ii) A reduction in taxable profit
  - (iii) Depreciation expenses
  - (iv) Impairment to asset's value
- n) The profitability index is a variation of which of the following capital budgeting models?
  - (i) Internal Rate of Return
  - (ii) Return on Investment
  - (iii) Net Present Value
  - (iv) Discounted Payback
- o) Working Capital Turnover measures the relationship of Working Capital with:
  - (i) Fixed Assets
  - (ii) Sales
  - (iii) Purchases
  - (iv) Stock.
- p) Requirement of Working Capital depends upon
  - (i) Size of the business
  - (ii) Credit policy adopted
  - (iii) Operating cycle involved
  - (iv) All of the above

- q) Which of the following ratios would most likely be used by management to evaluate short time liquidity?
- (i) Return on total assets
  - (ii) Sales to cash
  - (iii) Accounts receivable turnover
  - (iv) Acid test ratio
- r) In relation to the term structure of interest rates what is an inverse yield curve?
- (i) Upward sloping
  - (ii) Downward sloping
  - (iii) U shaped
  - (iv) Horizontal
- s) \_\_\_\_\_ varies inversely with profitability.
- (i) Liquidity
  - (ii) Risk
  - (iii) Blue
  - (iv) None of the above
- t) Permanent working capital
- (i) Varies with seasonal needs
  - (ii) Includes fixed assets
  - (iii) Is the amount of current assets required to meet a firm's long term minimum needs
  - (iv) Includes account payable

**SECTION - B****2×15**

Answer all the questions :

- 1 A firm is considering the following two mutually investments:

<i>Cash Flow (Rs.)</i>				
<i>Projects</i>	$C_0$	$C_1$	$C_2$	$C_3$
<i>A</i>	-25000	+5000	+5000	+5000
<i>B</i>	-28000	+12672	+12672	+12672

The cost of capital is 12%. Compute the NPV and IRR of each project. Which project should be undertaken and why?

- 2 The basic rationale for the objective of shareholders wealth maximization is that it reflects the most efficient use of society's economic resources and thus leads to a maximization of society's economic wealth. Comment critically.

**SECTION - C**

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

**OR**

To avoid the problem of shortage and surplus of funds what is required in the financial management? Name the concept and explain its any three points of importance. What is Assignment Problem? Is it true to say that it is a special case of the transportation problem? Explain.

- 2 Name the process which helps in determining the objectives, policies, procedures, programmes and budgets to deal with the financial activities of an enterprise. Explain its three points of importance.

**OR**

What is required to tackle the uncertainty in respect of availability and timings of funds? Name the concept involved and explain any three points of its importance.

- 3 What is meant by capital structure? How regulatory framework does affect the capital structure of the company?

**OR**

M-M approach is superior to traditional approach to optimum capital structure. Discuss.

- 4 What is optimum capital structure? State the different factors which influence optimum capital structure.

**OR**

What is working capital management? Explain briefly the factors determining the working capital of an organization.

- 5 What are the various sources of long term financing? Examine their pros and cons.

**OR**

What is dividend ? What are the major factors which influence the decisions regarding payment of dividend ?