CB
Batch 2021-22

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MASTER OF BUSINESS ADMINISTRATION (M.B.A.)
EXAMINATION : JUNE – JULY- 2022
SEMESTER - II

Sub: Financial Management (MBA204)

Date: 05/07/2022	Total marks: 60	Time: 10.00am to 12.30pm

SECTION – I

Q. 1. Fill in the blanks. **(5)**

1. Focus of Financial Management is mainly concerned with the decisions relating to:
   a) Investment b) Financing
   c) Dividend d) All the above
2. The most important goal of financial management is:
   a) Profit maximization b) Matching income and expenditure
   c) Using business assets effectively d) Wealth maximization
3. Firm's cost of capital is the average cost of:
   a) All sources of finance b) All borrowings
   c) All share capital d) All bonds and debentures
4. If OL is 1.24 and FL is 1.99, CL would be:
   a) 2.14 b) 2.18
   c) 2.31 d) 2.47
5. Which of the following indicates business risk?
   a) Operating Leverage b) Financial Leverage
   c) Combined Leverage d) Total Leverage

Q. 2. Answer the following. (Any Two) **(20)**

1. Which decisions does the financial manager take?
2. Explain in detail the three types of leverages.
3. What are the steps to calculate NPV of a project? Also state the decision rule. Take a simple example of your own and show the calculation of NPV.
4. List down different traditional and modern techniques of capital budgeting/ investment decisions.

Q. 3. Write notes on. (Any Two) **(10)**

1. Problems associated with profit maximization as an objective
2. Reasons behind payment of interest
3. Weighted average cost of capital (WACC)

SECTION – II

Q. 4. Case Study **(15)**

ABC Ltd. is a small company that is currently analyzing capital expenditure proposals for the purchase of equipment; the company uses the net present value technique to evaluate projects. The capital budget is limited to Rs. 5,00,000 which ABC Ltd. believes is the maximum capital it can raise. The initial investment and projected net cash flows for each project are shown below. The cost of capital of ABC Ltd. is 12%. You are required to compute the NPV of the different projects.

	Project A	**Project B**	**Project C**	**Project D**
Initial Investment	2,00,000	1,90,000	2,50,000	2,10,000
Project cash inflows				
Year 1	50,000	40,000	75,000	75,000
2	50,000	50,000	75,000	75,000
3	50,000	70,000	60,000	60,000
4	50,000	75,000	80,000	40,000
5	50,000	75,000	1,00,000	20,000

Q. 5. Solve the following: **(10)**

a) A company issued 10,000, 10% debentures of Rs. 100 each at par on 1.4.2012 to be matured on 1.4.2017. The company wants to know the cost of capital of its existing debt when the market price of the debentures is Rs. 80. Compute the cost of existing debentures assuming 35% tax rate.

OR

b) A firm's details are as under:

Sales (@ Rs. 100 per unit) Rs. 24,00,000
Variable cost 50%
Fixed cost Rs. 10,00,000

It has borrowed Rs. 10,00,000 @ 10% p.a. and its equity share capital is Rs. 10,00,000 (Rs. 100 each) Consider tax @ 50%.

Calculate:

1. Operating Leverage
2. Financial Leverage
3. Combined Leverage