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Register Number :

7035

Name of the Candidate :

M.B.A. DEGREE EXAMINATION MAY 2014.**(BUSINESS APPLICATIONS)****(SECOND YEAR)****270 — FINANCIAL DECISION MAKING**

Time : Three hours

Maximum : 75 marks

SECTION A

Answer any FIVE questions. (5 × 3 = 15)
All questions carry equal marks.

1. Define financial planning.
2. What is financial decision making?
3. What are the types of leverage?
4. Write about Bonus shares.
5. Write any two forms of dividend? And explain it
6. Explain payback period.
7. Define capital Budgeting.

SECTION B

Answer any THREE questions. (3 × 10 = 30)
All questions carry equal marks.

8. Describe the benefits of financial forecast.
9. Discuss the different approaches to the computation of cost of the equity capital.
10. Explain the important steps in the capital budgeting process.

11. The capital structure of Mary ltd. Consists of Equity share capital of Rs.2,00,000 and 8% Debentures of Rs.1,50,000. The fixed costs are Rs.30,000. You are required to calculate the operating and financial leverages when EBIT is Rs.60,000.
12. ABC co has got Rs.25,000 to invest the following proposals are under consideration.

Project	Initial outlay	Annual cash flow	Life (in years)
	Rs	Rs	
A	10,000	2,500	6
B	8,000	2,600	7
C	4,000	1,000	15
D	10,000	2,400	20
E	5,000	1,125	15
F	6,000	2,400	6
G	2,000	1,000	4

Rank these projects in order of their desirability under the pay-back period method.

SECTION C

Answer any ONE questions.

(1 × 15 = 15)

13. A company has 10% redeemable preference shares of Rs.1,00,000 redeemable at the end of the 10th year from the year of their issue. The underwriting costs came to 2%. Calculate the effective cost of preference share capital.
14. Compute the market value of the firm, value of shares and the average cost of capital from the following information:

Net operating income (No.1) Rs.2,00,000

Total investment Rs.10,00,000

Equity capitalisation rate:

- (a) If the firm uses no debt 10%
- (b) If the firm uses Rs.4,00,000 debentures 11%
- (c) If the firm uses Rs.6,00,000 debentures 13%.

Assume that Rs 4,00,000 debentures can be raised at 5% rate of interest where as Rs.6,00,000 debentures can be raised at 6% rate of interest.

15. What are the factors which influence the dividend policy of a firm.

SECTION D**Compulsory****(1 × 15 = 15)**

16. There are two projects R and S. Each involves an investment of Rs.40,000. The expected cash in flows and certainty coefficients are as under

Project – R			Project S	
Year	Cash in flows	Certainty co-efficient	Cash in flows	Certainty co-efficient
1	20,000	0.7	20,000	0.9
2	25,000	0.8	30,000	0.8
3	20,000	0.9	20,000	0.7

Risk free cut off rate is 10%. Suggest which of the two projects should be preferred.

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