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DOON UNIVERSITY, DEHRADUN
Semester Final Examination, Second Semester, 2015
School of Management
IMBA 5 years (3rd Semester)
Course: IMBA – 303: Foundation of Financial Management

Time Allowed: 3 Hours

Maximum Marks: 50

Note: Attempt All Questions from Sections A, B, C.

Section A: Read the following case and answer below. (15 marks)

A firm whose cost of capital is 10% is considering two mutually exclusive proposals X and Y, the details of which are as follows:

Particulars	Project X (Rs)	Project Y (Rs)
Initial Investment	15,00,000	15,00,000
Cash inflow		
1 st year	1,00,000	1,50,000
2 nd year	2,50,000	2,00,000
3 rd year	3,50,000	6,00,000
4 th year	5,50,000	5,75,000
5 th year	7,50,000	5,25,000
Total	20,00,000	20,50,000

Calculate the following for both the projects:

- Pay-back period
- Net present value at 10%
- PI at 10%
- IRR

Rank the projects and find the best project to invest.

Section B: State True/False with reason (not more than 40 words). (2x10=20 marks)

- a) Future expected profits from an investments are taken as returns from the investment for capital budgeting.
- b) Cost of Pref. share capital is determined by the rate of fixed dividend.
- c) Operating leverage may be defined as $\text{Contribution} \div \text{EPS}$.
- d) All equity plan and Debt-equity plan have no indifference level of EBIT.
- e) The NI approach, the k_0 falls as the degree of leverage is increased.
- f) At optimal capital structure, the k_0 of the firm is highest.
- g) In the Walters model, the DP ratio should depend upon the relationship between r and k_{cy} .
- h) Retained earnings are an easily available source of funds at no explicit cost.
- i) The EOQ model attempts to minimize the total cost of holding inventory.
- j) Vertical and conglomerate merger are synonyms of each other.

Section C: Attempt any three questions. All questions carry the equal marks.

(5x3=15 marks)

- a) Explain the traditional approach of capital structure theories.
- b) Write a short note on working capital management and its determinants.
- c) Discuss the relationship between leverage and cost of capital as per the net operating income approach.
- d) Explain the Walter's model.