Name : ....
Roll No. : ....
Invigilator's Signature : ....

CS/BTTM/SEM-4/TTM-405/2010

2010

FINANCIAL MANAGEMENT

Time Allotted : 3 Hours Full Marks : 70

The figures in the margin indicate full marks.

Candidates are required to give their answers in their own words as far as practicable.

GROUP – A

(Multiple Choice Type Questions)

1. Choose the correct alternatives for any *ten* of the following : $10 \times 1 = 10$

   i) Redemption of equity shares means

      a) equity shares have to bear all profit and loss of the company

      b) equity shares enjoy voting right

      c) in case of liquidation equity shares get their capital back after payment of preference shares

      d) exchange of shares with other financial instruments.

ii) The firm's decision to invest its funds in fixed and long-term assets is known as

a) capital budgeting b) asset planning

c) long term budgeting d) short term budgeting.

iii) Wealth maximization objective takes into account

a) rupee income of firm

b) future cash flows

c) time value of money

d) both (b) and (c).

iv) Debenture is a/an

a) equity instrument b) debt instrument

c) mezzanine finance d) fixed asset.

v) Calculate the NPV of the following project using a discount rate of 10% :

Yr 0 = – Rs. 800; Yr 1 = – Rs. 80 ; Yr 2 = Rs. 100;
Yr 3 = Rs. 300; Yr 4 = Rs. 500; Yr 5 = Rs. 500

a) Rs. 8·04 b) Rs. 87·28

c) Rs. 208·04 d) Rs. 459·17.

vi) Viewing capital budgeting decisions as a series of options is useful to strategic analysis because

a) contingent results may provide an option to bail out of a project with subsequent poor outcomes.

b) the value of the project should be considered as the NPV plus the value of the option.

c) strong markets and subsequent expansion options should be considered at time 0.

d) all of these.

vii) Money market securities

a) are issued by banks only

b) are highly volatile

c) are not marketable

d) are short term.

viii) The formula of Net Working Capital is

a) CA – CL

b) Total of CA

c) Sales – Variable Cost

d) Fixed Cost + Variable Cost.

ix) Raw material is converted into which of the following in operating cycle ?

a) Finished Goods

b) Work in Progress (WIP)

c) Debtors

d) Cash.

x) In case of flexible cost

a) cost for different levels of activity is fixed

b) cost of different levels of activity is variable

c) cost is same for same level of activity

d) cost is indifferent of levels of activity.

xi) A flexible budget should be prepared in

a) manufacturing units

b) SBUs

c) Railways

d) presenting the national budget.

GROUP – B

(Short Answer Type Questions)

Answer any *three* of the following. 3 × 5 = 15

2. What do you mean by wealth maximization as a goal of financial management ? Why is it superior than profit maximization goal of financial management ? 2 + 3

3. What do you mean by optimum capital structure ? Enumerate its basic characteristics. 2 + 3

4. A company issues Rs. 10,00,000, 16% Debenture of Rs. 100 each. The company is in 35% tax bracket. You are required to calculate cost of debt after tax, if debentures are issued

   i) at par

   ii) 10% discount

   iii) 10% premium.

5. Discuss the importance and application of ABC analysis.

6. What are the differences between budget and budgetary control ?

GROUP – C

(Long Answer Type Questions)

Answer any *three* of the following. 3 × 15 = 45

7. *XYZ* Ltd. is thinking of investing in a project costing Rs. 20,00,000. The life of the project is 5 years and the estimated salvage value of the project is zero. Straight line method of charging depreciation is followed. The tax rate is 50% the estimated cash flow before tax are as follows :

Year	***Estimated cash flow before depreciation and tax (Rs. in lakhs)***
1	4
2	6
3	8
4	8
5	10

You are required to determine the —

i) Pay-back period

ii) Average rate of return

iii) NPV at 10% cost of capital

iv) Benefit cost ratio

v) IRR. 3 + 2 + 5 + 5

8. What do you mean by Working Capital ? Describe with logic the importance of Working Capial management in —

   i) an ethnic restaurant

   ii) a large scale taxi-operator.

   iii) a Heritage Hotel

   iv) an Airline Company

   v) Railway Catering Service Provider of Rajdhani Express.

5 + 10

9. The Financial Manager of a Tour Operator has to advise the Board of Directors on choosing between two compelling project proposals, which require an equal investment of Rs. 10,00,000 to purchase luxury boats and are expected to generate cash flows as under :

End of Year	***Project-I***	***Project-II***
01	Rs. 4,80,000	Rs. 2,00,000
02	Rs. 3,20,000	Rs. 2,40,000
03	Rs. 2,00,000	Rs. 3,60,000
04	Rs. Nil	Rs. 4,80,000
05	Rs. 2,40,000	Rs. 1,60,000
06	Rs. 1,20,000	Rs. 80,000

Which project proposal should be recommended and why ? Assume the of capital to be 10% p.a. The following are the present value factors at 10% p.a :

Year	01	02	03	04	05	06
Factors	0·909	0·826	0·751	0·683	0·621	0·564

10. a) What is cost of capital ?

b) Calculate the average cost of capital from the following information :

Type of Capital	***Proportion in the Capital Structure***	***Cost of Capital***
Equity Capital	25%	24·44%
Preference Capital	10%	27·29%
Debt Capital	50%	7·99%
Retained Earnings	15%	18·33%

11. a) What is budgeting ?

b) A factory is currently working at 50% capacity. The product produces 20,000 units. Prepare a flexible budget of the company for 60% and 80% capacity. At 60% working raw material cost increases by 2% and selling price falls by 2%. At 80% working, raw material cost increases by 5% and selling price falls by 5%. at 50% working the product costs Rs. 180 per unit and is sold at Rs. 200 per unit. The item-wise break-up of unit cost is as follows :

Raw Materials	Rs. 100
Wages	Rs. 30
Factory Overhead	Rs. 24 (60% fixed)
Administration Overhead	Rs. 20 (40% fixed)

3 + 12

12. Write short notes on any *three* of the following : 3 ∞ 5

a) Hedging in foreign exchange

b) Economic Order Quantity in Hospitality Industry

c) Inventory Control of a Petrol Pump

d) Cost Standard

e) Zero based budgeting.