Name : ....

Roll No. : ....

Invigilator's Signature : ....

CS/BTTM/SEM-4/TTM-405/2011

2011

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 × 1 = 10

   i) Which of the following is not an objective of financial management ?

      a) Value maximization

      b) Profit maximization

      c) Ensure adequate liquidity

      d) Avoiding tax unethically.

   ii) Which of the following techniques ignores time value of money ?

      a) NPV b) IRR

      c) Profitability index d) ARR.

iii) Routine matters of finance are looked after by

a) Treasurer

b) Controller of finance

c) Accountant

d) Finance executive.

iv) Debentures are

a) Equity instrument

b) Debt instrument

c) Fixed asset

d) Tax saving security.

v) The costs which increase or decrease with production are called

a) fixed cost
b) production cost
c) variable cost
d) semi-variable cost.

vi) P-I Index is one of the

a) DPF criteria

b) Discounted cash flow criteria

c) Non-DCF criteria

d) both (a) & (b).

vii) The formula of Net working capital is

a) CA-CL

b) Total of CA

c) Sales-Variable cost

d) Fixed cost + Variable cost.

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

a) Finished goods

b) Work in Progress (WIP)

c) Debtors

d) Cash.

ix) In case of flexible cost

a) cost of 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 does not play a significant role at all.

x) IRR is the rate at which NPV is

a) highest b) lowest

c) negative d) zero.

xi) EOQ is the level at which

a) Labour cost is minimum

b) Sales is maximum

c) Profit is maximum

d) Material cost is minimum.

GROUP – B

(Short Answer Type Questions)

Answer any *three* of the following. $3 \times 5 = 15$

2. Explain briefly the wealth maximization objective of finance.

3. What do you mean by cost of capital ? State its importances.

4. Discuss the objectives of inventory management of a budget hotel.

5. A project requires an initial investment of Rs. 20,000. The expected cash inflow from the project for 5 years is Rs. 6,000, Rs. 8,000, Rs. 5,000, Rs. 4,000 & Rs. 4,000. Determine the payback period.

6. SM Ltd. expects to declare a dividend of Rs. 5 per share which is expected to grow @ 10% p.a. The current market price of the share is Rs. 110.Compute the cost of equity.

GROUP – C

(Long Answer Type Questions)

Answer any *three* of the following. $3 \times 15 = 45$

7. *A* star Hospitality Limited thinking of investing in a project costing Rs. 50,00,000. 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 40% the estimated cash flow before tax are as follows :

Year	Estimated cash flow before depreciation and tax (Rs. in lakhs)
1	2
2	4
3	10
4	12
5	14

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 is capital budgeting ? Why is it important ? Discuss the various project evaluation techniques ? 2 + 6 + 7

9. The Servex company has the following capital structure on 30. 06. 2009 :

Equity share capital (2,00,000 shares)	Rs. 40,00,000
10% Pref. shares	Rs. 10,00,000
14% Debentures	Rs. 30,00,000

The shares of the company sells at Rs. 20. It is expected that the company will pay next year dividend of Rs. 2 per share which will grow @ 7% forever. Assume tax rate is 50%. You are required to :

a) Compute a weighted average cost of capital based on existing capital structure.

b) Compute the new weighted average cost of capital if the company raises an additional of Rs. 20 lakhs debt by issuing 15% debenture. This will result in increasing the expected dividend to Rs. 3 and leave the growth rate unchanged, but the price of shares will fall to Rs. 15 per share. 8 + 7

10. a) The risk-free rate of return of a company is 8%, market rate of return is 20% & β of the firm is 1·5. Compute the cost of equity using CAPM.

b) Compute the WACC from the following information :

Capital	Amount (In lakhs)
Equity (@ Rs. 10 each)	200
14% preference capital (@ Rs. 100 each)	100
Retained earning	100
12% debentures (@ Rs. 100 each)	300
11% term loan	50

i) Market price of equity share is Rs. 32. The company is expected to declare a dividend of Rs. 2 per share which is expected to grow @ 10%.

ii) The preference share is redeemable at a premium of Rs. 5 per share after 8 years & are currently traded at Rs. 84 in the market.

iii) Debentures will be redeemed at a premium of Rs. 5 per debenture after 7 years & is currently traded at Rs. 90 per debenture.

iv) Corporate tax is 40%. 5 + 10

11. Write short notes on any *three* of the following : 3 × 5

a) Allocation of cost

b) Challenges of preperation of budget of a resort

c) Cash management of an airline company

d) Redeemable preference share

e) Managing credit in a hospital.