



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.

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



GROUP – B

(Short Answer Type Questions)

Answer any *three* of the following.

3 × 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.

$3 + 2 + 5 + 5$

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



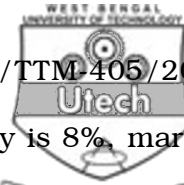
8. What is capital budgeting ? Why is it important ? Discuss the various project evaluation techniques ? 2 + 6 + 7

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

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

- a) Allocation of cost
 - b) Challenges of preparation of budget of a resort
 - c) Cash management of an airline company
 - d) Redeemable preference share
 - e) Managing credit in a hospital.
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