

Name :

Roll No. :

Invigilator's Signature :

CS/BTTM/SEM-4/TTM-405/2013

2013

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

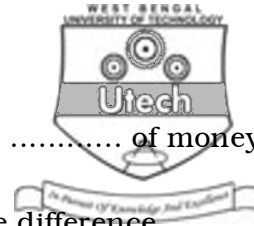
(Multiple Choice Type Questions)

1. Choose the correct answers for any ten of the following :

10 × 1 = 10

- i) Goal of financial management is the of economic welfare
 - a) Nationalization
 - b) Maximization
 - c) Minimization
 - d) Normalization.

- ii) Another name of investment decision is
 - a) Capital decision
 - b) Profit decision
 - c) Capita budgeting decision
 - d) Working capital decision.



iii) Time value of money is also known as of money

- a) Time preference b) Time difference
- c) Time occurrence d) None of these.

iv) Ordinary shares are also known as

- a) Equity b) Preference
- c) Private Equity d) Preferential Allotment.

v) Cost of capital is minimum

- a) Required rate of return
- b) Rate of risk
- c) Rate of growth
- d) Rate of investment.

vi) Discounted cash flow method does not include

- a) NPV b) IRR
- c) PI d) ARR.

vii) Identify the one which *does not pay* interest

- a) Preference Shares b) Term Loan
- c) Recurring Deposit d) Bond.



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

- a) Fixed cost
- b) Production cost
- c) Variable cost
- d) Semi-variable cost.

ix) An investment proposal should not be accepted if

- a) $IRR > \text{cut off rate}$
- b) $IRR < \text{cut off rate}$
- c) $IRR = \text{cut off rate}$
- d) None of these.

x) The decision relating to disposition of distributable profit is known as

- a) Investment decision
- b) Financing decision
- c) Dividend decision
- d) Current asset decision.

xi) In finance, working capital means

- a) Total assets
- b) Total fixed assets
- c) Total current assets
- d) $CA - CL$.



xii) EOQ stands for

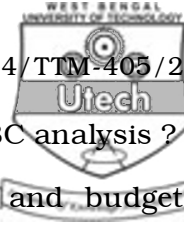
- a) Essential Order Quantity
- b) Economic Order Quantity
- c) Economic Order Queue
- d) Economic overdue quality.

GROUP – B

(Short Answer Type Questions)

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

2. What do you mean by Wealth maximization as a goal of financial management ? Why it is superior to profit maximization goal of financial management ? 2 + 3
3. What do you mean by cost of capital ? Why it is important in financial decision making ? 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. Ardent 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 is Zero based budgeting ? How do you differentiate it from traditional budgeting. 4 + 11



9. Prepare a cash budget for the month of April to June 2013.

Month	Sales (Rs.)	Materials (Rs.)	Wages (Rs.)	Overheads (Rs.)
February	14,000	9,600	3,000	1,700
March	15,000	9,000	3,000	1,900
April	16,000	9,200	3,200	2,000
May	17,000	10,000	3,600	2,200
June	18,000	10,400	4,000	2,300

Credit Terms are : Sales/Debtors : 10% in cash, 50% credit sales are collected in the next month and the balance after one month.

Creditors : Materials 2 months, Wages $\frac{1}{4}$ month, Overhead $\frac{1}{2}$ month.

Cash balance as on 1st April 2013 Rs. 6,000.

10. From the following particulars prepare a statement showing the working capital needed to finance a level of activity of 1200 units of output p.a.

Raw materials	Rs. 50 per unit
Labour	Rs. 30 per unit
Overhead	Rs. 20 per unit
Total cost	Rs. 100 per unit
Profit	Rs. 20 per unit
Selling price	Rs. 120 per unit

Additional information :

- (i) Raw materials are to remain in store on an average of 2 months.
- (ii) Materials are in process, on an average of 3 months.



- (iii) Finished goods are in stock on an average of 3 months.
- (iv) Credit allowed to debtors is 4 months.
- (v) Credit availed from supplies for 2 months.
- (vi) Cash in hand desired to be maintained at Rs. 30,000.

11. The Horizon Ltd has the following capital structure on 31st March, 2013

Equity Share capital (20,000 of Rs. 100 each)	Rs. 20,00,000
10% Pref. Shares (10,000 of Rs. 100 each)	Rs. 10,00,000
14% Debenture	Rs. 70,00,000

The shares of the company sells at Rs. 120. It is expected that the company will pay next year dividend of Rs. 20 per share which will grow @ 7% forever. All the shares are traded in stock market. The current prices are as under :

- a) Rs. 130 per preference share
- b) Rs. 110 per debenture
- c) Rs. 120 per equity share

You are asked to determine weighted average cost of capital based on (i) Book value and (ii) Market value weights assuming that the company is in 40% tax regime.

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

- a) Operating cycle
- b) Capital structure
- c) Net present value
- d) Discounted payback period.
- e) Challenges of cost management in hospitality industry.