

Name :

Roll No. :

Invigilator's Signature :

CS/MBA/SEM-3(P.T)/MB-207/2012-13
2012
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 does not come under market risk factors ?
 - a) War & other calamities
 - b) Industrial recession
 - c) Company strike
 - d) Major changes in tax rate.
- ii) Under-trading means
 - a) Selling goods at a price less than cost of production
 - b) Sales are less when compared to the asset employed
 - c) Asset employed are less when compared to the sales
 - d) None of these.



- viii) Operating leverage measures the sensitivity of the to changes in quantity.
- a) Earning per share
 - b) Profit after tax
 - c) Earning before interest & tax
 - d) Profit before tax.
- ix) Degree of financial leverage is below the financial break even point.
- a) Undefined
 - b) Positive
 - c) Negative
 - d) Zero.
- x) Which of the following is true ?
- a) A bond is an instrument of debt issued by a business or governmental unit
 - b) Par value is the value stated on the face of the bond
 - c) A bond carries a specific interest rate which is called coupon rate
 - d) All of these.
- xi) During a situation of Capital Rationing, the most suitable method is
- a) NPV
 - b) IRR
 - c) PI
 - d) Pay back period.
- xii) Working capital deals with
- a) short-term financing
 - b) long-term financing
 - c) both (a) & (b)
 - d) Govt. financing.



GROUP - B

(Short Answer Type Questions)

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

2. You can save Rs. 2,000 a year for 5 years and Rs. 3,000 a year for 10 years thereafter. What will these saving cumulate to at the end of 15 years, if the rate of interest is 10% ?
3. What is the present value of an income stream which provides RSV. 2,000 a year for the 5 years, & RSV, 3,000 a year forever, if the discount rate is 10% ?
4. Calculate expected return & risk.

<i>Possible outcome (i)</i>	<i>Probabilities (p_i)</i>	<i>Rate of return (k_i)</i>
1	0.1	0.5 or 50%
2	0.2	0.3 or 30%
3	0.4	0.1 or 10%
4	0.2	- 0.1 or - 10%
5	0.1	- 0.3 or - 30%
Total	1.0	

5. Discuss about different sources of working capital.
6. Distinguish between 'Profit Maximization' and 'Wealth Maximisation' objectives of Financial Management.



GROUP - C

(Long Answer Type Questions)

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

7. VH Ltd. has the following capital structure : (Rs. in lakhs)

Equity capital (10 lakhs shares at par value)	100
12% preference capital (10,000 shares at par)	10
Retained Earnings	120
14% non-convertible debenture (70000 debentures at par value)	70
14% term loan from IDBI	<u>100</u>
Total	400

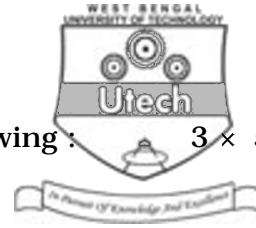
The market price per equity share is Rs. 25. The expected dividend per share (DPS) is Rs. 2 & DPS is expected to grow at a constant rate of 8%. The preference shares are redeemable after 7 years at par & are currently quoted at Rs. 75 per share in the stock exchange. The debentures are redeemable after 6 years at par & their current market price is Rs. 90 per share. The tax rate is 50%. Calculate WACC.

8. Prove M & M approach in capital structure theories.
9. A and B are two mutually exclusive projects of life 1 year each involving different outlays. The effective rate of discount for both the projects can be taken as 10%. The relevant details of the projects are as follows :

- i) Initial Investment Rs. 5,000 Cash Inflow Rs. 6,250
 ii) Initial Investment Rs. 7,500 Cash Inflow Rs. 9,150

Find out NPV & IRR for both the project & rank them. Are there any conflict ? How can you resolve the issue ?

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

- a) Yield to maturity
- b) Motives for holding cash
- c) Cost of Retained Earnings
- d) Importance of Cash Budget
- e) Systematic and unsystematic risks.

11. a) Explain the following terms :

- i) Operating Leverage
- ii) Financial Leverage
- iii) Combined Leverage.

b) With an illustration show that a firm with higher operating leverage and high financial leverage is much more riskier than a firm with low operating and low financial leverage. $6 + 9$

12. From the following information prepare a statement showing the estimated working capital to be required by a newly formed manufacturing company with the production capacity of 9000 units per annum, for 1987.

Following are the further information :

Elements of cost	Cost per unit
Material	Rs. 5
Wages	Rs. 6
Overhead	Rs. 7

Total Cost	Rs. 18
Profit	Rs. 2

Selling Price	Rs. 20



Additional Information :

Raw materials are in stock on an average 2 months.

Raw materials are in process on an average 1 month.

Finished goods are in stock 3 months.

Credit allowed to debtors 5 months.

Credit allowed by creditors 4 months.

Credit allowed by employees $\frac{1}{2}$ month.

Lag in payment of overhead 1 month.

Cash in hand and at bank Rs. 12,000.

