*Name :* ...............................................................

*Roll No. :* ...............................................................

*Invigilator's Signature :* .............................................

**CS/MBA/SEM-3(PT)/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 :

$10 \times 1 = 10$

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.

iii) What constant growth rate in dividends is expected for a stock valued at Rs. 37.82 if a dividend of Rs. 4.00 has just been paid & the discount rate is 15% ?

a) 4% b) 4.42%

c) 7.5% d) 5.2%.

iv) Should a project be accepted if it offers an annual after-tax cash flow of Rs. 2 million indefinitely, costs Rs. 10 million, is riskier than the firm's average projects, & the firm uses a 20% WACC ?

a) Yes, since NPV is positive

b) Yes, even though NPV is negative

c) No, since NPV is zero

d) No, since NPV is negative.

v) When a project's internal rate of return equals its opportunity cost of capital, then

a) NPV is positive b) NPV is negative

c) NPV is zero d) Project is rejected.

vi) If the standard deviation of a portfolio's return is known to be 20%, then its variance is

a) 4.47 b) 4.47%

c) 400.00 d) 400.00%.

vii) The company cost of capital for a firm with a 40 / 60 debt / equity split, 8% cost of debt, 15% cost of equity & 40% tax rate would be

a) 8.77% b) 10.8%

c) 10.92% d) 12.2%.

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.

| *Possible outcome ( i )* | *Probabilities ( $p_i$ )* | *Rate of return ( $k_i$ )* |
|---|---|---|
| 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 × 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 | 100 |
| 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 ?

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 Earnigns

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.