2014

Financial Management-I

Time Alloted : 3 Hours ***Full Marks : 70***

The figure 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:**

10x1=10

i) Goal of financial management is __________ 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) Capital budgeting decision
d) Working capital decision.

iii) Rate of return required by investor is normally known as :_

a) Coupon rate
b) Market rate
c) Hurdle rate
d) Risk -free rate.

iv) Time value of money is also known as _________ of money

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

v) Ordinary-Shares are also known as:-

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

vi) Discounted cash flow method does not include

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

vii) Financial leverage is also known as

a) Trading on Debt
b) Trading on Equity
c) Trading on Preference
d) Trading on Debt and preference.

viii) Operating leverage depends on

a) Cost structure of firm
b) Capital structure of firm
c) Both (a) and (b)
d) Investment decision of the firm.

ix) As per Baumol's Model minimum cash balance is ascertained by:-

a) √2BT/ i
b) √3BT/ i
c) √4BT/ i
d) √5BT/ i

x) Combined leverage is

a) DOL*DFL
b) DOL/DFL
c) DFL/DOL
d) None of these.

xi) As per Gordon's model, market price of a share is.-

a) (a) P= E (1-b)/K-br
b) P= k-br/E(1-br)
c) (c) P= (1-br)/k-br
d) None of these.

GROUP - B

(Short Answer Type Questions)

Answer any *three* of the following. 3x5=15

2. What is a value maximization objective of a firm? How does it differ from profit maximization?

   5

3. Give five important factors that a firm should consider in formulating dividend policy.

   5

4. State the significance of Capital Budgeting Decision.

   5

5. What do you mean by negative working capital? What are its implications?

   (2+3)

6. A company's share is currently quoted in the market at Rs.20. the company pavs a dividend of Rs.2 per share and investors expect a growth rate of 5% per year. You are required to calculate (a) cost of equity capital of the company if the anticipated growth rate.is 7%.

   5

GROUP - C

(Long Answer Type Questions)

Answer any *three* of the following. 3x15=45

7. (a) "Proper working capital management is the backbone for success of organisation" Discuss.

(b) The capacity of an organization is to produce 40,000 units of School Bags per annum. Due to financial distress the organization can operate only 60% of the capacity level. The following information available on the cost-price structure of a Bag, at the current level of production:

Elements of cost Per Unit	(Rs.)
Raw materials	60
Direct Labour	30
Overhead	40
Profit	30
Selling price	160

(i) Raw materials are in stock on an average for 2 months.

(ii) The duration of the production process is 1 month.

(iii) Finished goods are in stock on an average for 2 months.

(iv) Credit allowed to customer is 3 months.

(v) Credit obtained from suppliers of raw materials is 1.5 month.

(vi) Lag in payment of wages is half a month.

There is usually no lag in payment of overheads. Raw materials are introduced at the beginning of manufacturing process and labour and overhead accrue evenly. You have recently joined the company as an assistant manager. You are required to ascertain the forecasted working capital statement at the current level of operations.

(5+10)

8. From the following particulars prepare a monthly cash budget for the quarter ended 31st March, 2014

MONTHS	SALES	PURCHASES	WAGES	EXPENSES
November	50000	10000	20000	4000
December	60000	20000	20000	4000
January	40000	30000	22000	5000
February	50000	20000	22000	5000
March	60000	10000	24000	5000

Other Information:

i) 10% of sales & purchases are on cash, balance on credit.

ii) Credit to debtors: 1 month, on an average 50% of the debtors will make payment on an due time while the rest will make payment 1 month thereafter.

iii) Credit from creditors: 2 months, 10% cash discount will be received if payment is made 1 month & it is estimated that 50 % of purchases advantage of discount will be taken.

iv) Wages: to be paid twice in a month on the 1st & 16th respectively.

v) Expenses generally paid within the month.

vi) Plant X costing Rs. 10,000 will be installed in February on payment of 25% of the cost in an addition to installation cost of Rs. 500, balance to be paid in equal monthly installments from the following month.

vii) Opening cash balance Rs.20,000. Excess cash over Rs. 20,000 to be invested in securities which is traded off in the market in multiple of 100. On the other hand deficit cash to be met up by selling securities.

9. Bharat Ltd. has the following capital structure:

Equity share capital (1,00,000 shares at per)	10.00,000
12%Pref.share capital(1,00,000 shares at per)	10,00,000
Retained earnings	12,00,000
14% non convertible debenture (8,000 at per)	8,00,000
14%Term loan	10,00,000
	50,00,000

Other Information:

i) The market price per share is Rs. 25, the next expected dividend per share is Rs. 2 and expected to grow at a constant ratio of 8%.

ii) The preference shares are redeemable after 7 years at per and currently quoted at Rs. 75 per share in the stock exchange.

iii) The debentures are redeemable after 6 years at per and their current market quotation is Rs.90 per debenture.

iv) The tax rate applicable to the firm is 50%.

You are required to compute WACC of the company using proportions on

a) Book value basis and b) Market value basis

10. a) Dicuss profitability index method of capital budgeting.

b) Determine the IRR from the following set of data:

Cost of project Rs.45,000	
Annual cash inflows after tax	
1st Year	Rs.5,000
2nd Year	Rs.10,000
3rd Year	Rs.15,000
4thYear	Rs.20,000
5thYear	Rs.25,000
Estimated life of the project 5 years	

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

3x5=15

a) Capital budgeting decision.
b) Work in progress.
c) Contribution.
d) Present value factor.
e) Public lending rate.
f) Purchasing power parity.