MMS/D07

Financial Management

Paper: CP-204

Time : 3 Hours MM:70

Note :- Attempt five questions in all taking one question from each unit. All questions carry equal marks.

1 Expalin the follwing.

(a) Explain the tenn gross present value, net present value, and wealth.

(b) What is tenninal value method of capital budgeting?

(c) Explain the CAPM in context to cost of equity.

(d) What is EBIT-EPS analysis in capital structure planning?

(e) Explain the conservative policy of working capital management.

(f) Explain the tenn aging schedule in receivables management.

(g) Explain the concept of irrelevance of dividend.

2 Critically examine the 'Wealth Maximization' objective of financial management with imaginary data. What are important development in this respect, specifically in context to agency cost?

(a) . Explain the techniques of measuring the risk in capital budgeting with examples.

(b) Distinguish between NPV and IRR methods of Capital budgeting.

3 Which method is superior and why?

(a) Explain the relevance of M.M. approach of Capital Structure in planning of Corporate Capital Structure alongwith its limitations.

(b)Explain the trade off theory and pecking order theory with suitable examples in context to capital structure

4 (a) 'X' Ltd. issues 10% debentures, face value Rs. 100. The net amount realized per debenture is Rs. 95. The debentures are redeemable at par after 10 years. The tax rate for the firm is 35%. What is the cost of these debentures?

(b) The price of equity. share of 'X' Ltd. company is quoted at Rs. 150. The dividend expected a year hence is Rs. 12 per share. Growth rate in dividend is expected 10% per year for 5 years, and thereafter 6% forever. What is the cost of equity to the company?

5 Explain the objectives of cash management. What are the motives for holding Cash? Explain the options and strategies available to a firm for managing Surplus Cash.

6 (a) Explain the various terms used in finn's credit policy.

(b) 'X' Ltd. currently provides 45 days of credit to its Customers. Its present level of sale is Rs. 150 million. The firm's cost of capital is 15% and the ratio of variable costs to sales is 0.80. The firm is considering extending its credit period to 60 days. Such an extension is likely to push sale up by

Rs. 15 million. The bad debts proportion on additional sales would be 5 percent. The tax rate is 35 percent. What will be the effect oflengthening the credit period on the net profit of the firm ?

7 Distinguish between Walter's model and Gordon's model of dividend. State the revised Gordon's model. What are its implications? How is it derived? Explain with suitable examples.

8 Write notes on the following:

(i) The Concept of Financial Modeling

(ii) ABC Analysis of Inventory Management.