

MMS/M09**7666****Financial Management****Paper : CP-204**

Time : Three Hours]

[Maximum Marks : 70

Note:— Attempt **FIVE** questions. Question no. 1 is compulsory. All questions carry equal marks.

1. Short answer questions :-
 - (a) Concept of Perpetual Debenture
 - (b) Concept of Aging Schedule
 - (c) Concept of post pay back profitability
 - (d) Concept of circulating capital
 - (e) Concept of financial risk
 - (f) Difference between Equity and Preference Shares
 - (g) Concept of stock dividend.
2. What is meant by time value of money ? Why should it be studied by the students of business management ? Explain the techniques to convert the sums of money to a common point in time.
3. Sardar Transport has allocated Rs. 25,00,000 for capital budgeting purposes. The following proposals and associated profitability indexes have been determined :-

Project	Amount	Profitability Index
1	Rs. 12,50,000	1.22
2	Rs. 8,75,000	1.25
3	Rs. 5,00,000	1.20
4	Rs. 3,75,000	0.95
5	Rs. 11, 25, 000	1.18

- (a) Which of the above investments should be undertaken ?
 - (b) Would the firm be maximising the price of the equity shares by turning down projects having an index larger than one.
4. Assume perfect markets except for corporate taxes at a rate of 50%. PLC is an all-equity company and has cost of equity of 16%. The risk-free rate is 10% and the expected market return is 15%. PLC's management decides to move to a capital structure such that debt-to-equity in market value terms, will equal 0.5. At that level, debt is considered risk free.
- (a) Estimate the cost of equity for PLC in the revised capital structure, explaining the reasons for change in equity cost.
 - (b) Estimate the weighted-average cost of capital for PLC and explain the circumstances in which this would be appropriately used as a discount rate for capital investment analysis.
5. What is meant by capital structure ? Explain the theories of capital structure.
6. "There are two possible interpretations of working capital concept : Balance Sheet and Operating Cycle concepts." Comment and suggest what should be the working capital policy during the current period of economic meltdown.

7. What is cash management ? What are its objectives ? What actions can a finance manager take to reduce a company's cash requirements ? Explain.
8. What are :-
 - (a) a constant payout ratio policy ?
 - (b) a regular dividend policy ?
 - (c) a low regular and-extra dividend policy ? What are the ramifications of these policies ? Explain.