Name : ....
Roll No. : ....
Invigilator's Signature : ....

CS/BSM/SEM-4/BSM-401/2013

2013

FINANCIAL MANAGEMENT – I

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 the following : $10 \times 1 = 10$

   i) Financial Management traditionally involved

      a) anticipating financial needs

      b) acquiring financial resources

      c) allocating funds in business

      d) all of these.

ii) Which of the following is not true for cost of capital ?

a) It is the minimum rate of return expected by the suppliers of fund

b) It is useful in deciding optimum capital structure

c) It is used to acquire assets for the firm

d) It is used to evaluate investment proposals.

iii) Routine matters for finance are looked after by

a) Treasurer
b) Controller of Finance
c) Accountant
d) Finance Executive.

iv) Which of the following is not an objective of Financial Management ?

a) Value maximization

b) Profit maximization

c) Ensure adequate liquidity

d) Avoiding tax unethically.

v) To compute the required rate of return for equity in a company using CAPM, it is necessary to know all the following *except*

a) risk-free rate of return

b) beta of the firm

c) earnings of the next time period

d) expected market return.

vi) Decrease in working capital will result in decrease of

a) Assets b) Current liabilities

c) Capital d) Current assets.

vii) Higher operating leverage is related to the use of additional

a) fixed costs

b) variable costs

c) debt financing

d) common equity financing.

viii) Which of the following statements regarding the net operating income approach is incorrect ?

a) The overall capitalization rate, k_o is constant

b) The cost of debt funds, k_i is constant

c) The required return on equity, k_e is constant

d) The total value of the firm is unaffected by changes in financial leverage.

ix) Tax is an important factor to be considered for the calculation of cost of

a) debt
b) equity shares
c) preference shares
d) none of these.

x) Which of the following approaches of capital structure states that the WACC of a firm decreases only up to a certain limit due to introduction of additional debt ?

a) NI approach
b) NOI approach
c) Traditional approach
d) None of these.

GROUP – B

(Short Answer Type Questions)

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

2. Explain briefly the wealth maximization objective of financial management.

3. Sagar Automobile Ltd's share is currently traded at Rs. 180. A dividend of Rs. 8 is expected on it. It is further expected that the dividends will grow at 8% p.a. perpetually. Compute the cost of equity.

4. Define financial planning. State the steps followed in financial planning.

5. State the motives of holding inventory.

6. The risk-free rate of return of a company is 8%, market rate of return is 20% & β of the firm is 1·5. Compute the cost of equity using CAPM.

GROUP – C

(Long Answer Type Questions)

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

7. Explain the concept of working capital. Briefly explain the factors to be considered for determining the working capital requirement.

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

   a) EOQ

   b) Cost of retained earnings

   c) NOI approach

   d) Motives for holding cash

   e) Indications of combined leverage.

9. A company has an investment opportunity of Rs. 40,000 with the following expected net cash flow :

Year	1	2	3	4	5	6	7	8	9	10
Cash flow (Rs.)	7000	7000	7000	7000	7000	8000	10000	15000	10000	4000

   Cost of capital for the company is 10%.

   Calculate the following :

   a) Pay-back period

   b) NPV

   c) Profitability index at 10% discount rate

   d) IRR using 10% & 15 % discounting factor.

PV factors @10% & @15% are as follows :

Year	1	2	3	4	5	6	7	8	9	10
PV factor @ 15%	0·870	0·756	0·658	0·572	0·497	0·432	0·376	0·327	0·284	0·247
PV factor @ 10%	0·909	0·826	0·751	0·683	0·621	0·564	0·513	0·467	0·424	0·386

3 + 4 + 3 + 5

10. Details regarding three companies are given below :

A Ltd.	*B* Ltd.	*C* Ltd.
r = 15%	r = 10%	r = 8%
k_e = 10%	k_e = 10%	k_e = 10%
E = Rs. 10	E = Rs. 10	E = Rs. 10

By using Walter Model you are required to calculate the value of an equity share of each of these companies when provided pay-out ratio is (i) 0%, (ii) 20%, (iii) 50% and (iv) 100%.

11. What is optimum capital structure ? What are the factors which influence the capital structure decision ? What does NI approach suggest ?

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