



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)

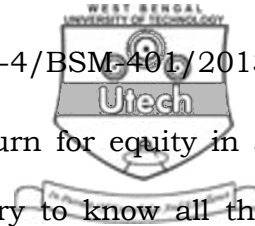
1. Choose the correct alternatives for the following : $10 \times 1 = 10$

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.

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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
Cash flow (Rs.)	7000	7000	7000	7000	7000	8000

7	8	9	10
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
PV factor @ 15%	0.870	0.756	0.658	0.572	0.497	0.432
PV factor @ 10%	0.909	0.826	0.751	0.683	0.621	0.564

7	8	9	10
0.376	0.327	0.284	0.247
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.
$r = 15\%$	$r = 10\%$	$r = 8\%$
$k_e = 10\%$	$k_e = 10\%$	$k_e = 10\%$
$E = \text{Rs. } 10$	$E = \text{Rs. } 10$	$E = \text{Rs. } 10$

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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