

N.B.:

- 1) All questions are **COMPULSORY**.
- 2) Figures to the **RIGHT** indicate Full marks.
- 3) Use of non-programmable calculator is **allowed**.
- 4) Assume suitable data **WHEREVER** necessary.

Q.1 "It has been traditionally argued that the objective of a firm is to earn profit, (10)
hence the objective of financial management is also profit making". Comment.

OR

Q.1 Amar just purchased a new house for Rs. 1,20,000. He was able to make a (10)
down payment equal to 25% of the value of the house; the balance was
mortgaged. The rate by the bank is 10% compounded annually. The mortgage
has a 20 years amortization period (this means that payments are calculated
assuming, it will 20 years to pay off the loan)
a) What will be the size of the payments by factor formula?
b) What will be the balance remaining on the mortgage after 5 years?

Q.2 Why does the value of share of stock depend on dividend? Solve the following (10)
question:
The current market price of a share is Rs. 80, next year's expected dividend is
Rs. 4 per share, expected price of share after one year is Rs. 90, required rate
of return 18%. What should be the value of share and should it be bought at
current market price?

OR

Q.2 What is the CAPM approach for calculating the cost of equity? What is the (10)
difference between this approach and the constant growth approach?

Q.3 Calculate operating, financial and combined leverage under the following (10)
situations when fixed cost are:
a) Rs. 50000
b) Rs. 1,00,000

For financial plan 1 and 2 respectively from the following information
pertaining to the operation and capital structures of XYZ CO.

Total assets Rs. 3,00,000

Asset turnover ratio = 2

Variable costs as 60% of sales

Financial plan	A	B
Debt 10%	Rs. 10,00,000	Rs. 3,00,000
Equity	Rs. 3,00,000	Rs. 1,00,000

OR

Q.3 What is operating leverage? How it is different from financial leverage? (10)
Illustrate

- Q.4 A firm has the following capital structure and after-tax cost for the different sources of funds used (10)

Source of fund	Amount (Rs.)	Proportion %	After tax cost %
Debt	40,00,000	20	4.5
Preference shares	20,00,000	10	9
Equity shares	60,00,000	30	11
Retained earnings	80,00,000	40	10
	2,00,00,000	100	

Calculate the cost of weighted capital by using book value method

OR

- Q.4 Discuss the various techniques of capital budgeting. (10)

- Q.5 Arvind Ltd. Supplier has the following information for calculating the working capital. Firm levels of activity of Rs. 2,40,000 units. The cost structure particulars are (10)

Particulars	Cost per unit (Rs.)
Raw Materials	30
Direct Labour	20
Overheads	10
Total	60
Profit	15
Selling price	75

- Raw materials are in store on average for one month
 - Work in process (100% completed in regard to materials and 50% for labour and overheads for half a month's production)
 - Finished goods remain in godown on average for a month.
 - Suppliers one month to customers two months (calculation of customers may be made on selling price)
 - Minimum cash balance required is Rs. 30,000.
 - The production is evenly throughout the year
- Prepare a statement of working capital requirements.

OR

- Q.5 Why companies maintain huge cash and marketable securities despite them being least productive assets? (10)

- Q.6 The proposed credit policy of R. K. Mills would cut down the bad debts from 4% to 2%. It will also improve the collection period from 60 days to 30 days. The firm's current sale of Rs. 80,00,000 will decline by 20% on account of this new policy. If the contribution margin costs of borrowing are 15% and 14% respectively, how the new credit policy affect the profit of the firm? (10)

OR

- Q.6 Explain the collecting matrix approach to receivables analysis and controls. How does it overcome the deficiencies of DSO and AS method? (10)

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