Course Title: Financial Management
Course No: PGHRM2C002T

Maximum Marks: 100
Time Allowed: 3 hours

SECTION A (II)

Note: This section has ten questions. **All questions are compulsory.** Each question carries **1.5 mark. Time allowed for this section is 10 minutes.** Answers are to be recorded on the separate sheet available. **(Total 15 marks)**

Q1. EVA is

a) EBIT – Cost of funds
b) Operating Profit after Tax – Cost of funds
c) Net Profit – Cost of Funds
d) EAIT – Cost of Funds

Q2. In Financial Management optimal capital structure is categorized as ?

a) Investment Decisions
b) Financing Decisions
c) Dividend Decisions
d) All of these

Q3. Which of the following is not the time adjusted method of appraising capital budgeting

a) ARR
b) IRR
c) NPV
d) None of these

Q4. For Tata Steel change in Sales is 30% , change in its EBIT is 90% and change in EPS by 60%. What's the degree of Financial Leverage & Combined Leverage

a) 2 & 3
b) 3 & 2
c) 0.66 & 2
d) 2 & 0.66

Q5. With reference to cost of capital CAPM, β coefficient assesses

a) Non-systematic risk
b) Diversifiable risk
c) Systematic risk
d) Both A & B

Q6. The company facing liquidity crisis the most appropriate capital budgeting technique will be

a) ARR
b) IRR
c) Pay back
d) PI

Q7. Company A uses only 10% Rs 100 Debenture and Company B uses only 10% Rs. 100 preference shares both fall in tax bracket of 29%. Which company will have less cost of capital

a) Both same cost
b) Data insufficient
c) Company A
d) Company B

DATE	Sterlite Industries	Nifty Index
JAN 2016	125	6450
FEB 2016	123	6350
March 2016	138	6500
April 2016	132	6580

Q13. Define Hire-Purchase & Leasing ? Explain leasing as a long term source of finance and its types.

OR

A company is required with additional Rs. 3,00,000 for its certain project. The finance manager has proposed two alternatives for financing either equity capital of Rs. 3,00,000 **OR** 10% Debenture Rs. 1,00,000 , 10% Preference share Rs. 1,00,000 & Rs. 1,00,000 equity capital. Determine the indifference point assuming 30 % corporate tax rate , 10% dividend tax rate & Rs 100 face value of equity share.

With indifference level of EBIT prepare a statement/ schedule that proves EPS will be same regardless of plan chosen

Q14. Define Gross, Net, Zero Working Capital Concepts. Explain Hedging and Conservative Approach of Financing mix of Current Assets.

OR

Explain concept of Factoring & Commercial papers.

Q15. Explain relevance of dividend decision with reference to Gordon's model

OR

Explain the various factors which influence the dividend decision of a firm. Also discuss the various types of dividends

SECTION C

Note: This section has five questions. **Attempt any three questions including compulsory case-study.** Each question carries **15 marks.(Total 45 Marks)**

UNIT-I

Q16. What are various problems associated with Profit maximization as objective of finance? Discuss how wealth maximization as objective of finance overcomes all those limitations.

UNIT-II (Case-Sudy)

Q17. MARTIN RETAIL (MR) is a large chain of retail stores operating in the USA. It sells top-of the-range, expensive clothes to a wealthy clientele throughout the country. Currently, MR only operates in the

12.5%. On the basis of supplemented data explain the Modigliani – Miller hypothesis of Capital Structure.

UNIT-IV

Q19. From the following information ABC pvt ltd, estimate working capital needed to finance a level of activity of 60,000 units of production after adding 10% safety contingency

Raw materials	70
Direct Labour	30
Overheads	50
Total Cost	150
Profit	30

Additional Information :

Average raw material in stock : One Month

Average WIP(50% Completion stage) : half a month

Average finished goods in stick : One month

Credit allowed by supplier : One month

Credit allowed to customers: Two months

Lag in payment of wages: One and half weeks

Overhead expenses One month. Its also provided Only One fourth of the sales is on cash basis. Cash balance is expected to be Rs. 215000. Assume the production carried out evenly though out the year.

UNIT-V

Q: 20. ABC Ltd. has a capital of Rs. 10 lakhs in equity shares of Rs. 100 each share . The shares are currently quoted at par. The company proposes declaration of a dividend of Rs. 10 per share at the end of the current financial year. The capitalization rate for the risk class to which company belongs is 12%.

What will be the market price of the share at the end of the year, if:

i) A dividend is not declared?

ii) A dividend is declared?

Assuming that the company pays the dividend and has net profits of Rs. 5 lakhs and makes new investments of Rs. 10 lakhs during the period, how many new shares be issued using the M.M. model.