

**FINANCIAL MANAGEMENT
(CBS3132)**

Time Allotted : 2½ hrs

Full Marks : 60

Figures out of the right margin indicate full marks.

*Candidates are required to answer Group A and
any 4 (four) from Group B to E, taking one from each group.*

Candidates are required to give answer in their own words as far as practicable.

Group – A

1. Answer any twelve:

12 × 1 = 12

Choose the correct alternative for the following

- (i) Maximization of Shareholders Wealth is reflected in
(a) Sales Maximization (b) Number of Shareholders
(c) Market Price of Equity Shares (d) None of the above
- (ii) Which of the following is not incorporated in capital budgeting?
(a) Tax effect (b) Time Value of Money
(c) Required rate of return (d) Rate of cash discount
- (iii) Time value of money is an important concept of finance because it takes in to account:
(a) Risk (b) Time
(c) Compound Interest (d) All the above
- (iv) External sources of finance do not include:
(a) Overdrafts (b) Debentures
(c) Leasing (d) Retained Earnings
- (v) Efficient frontier comprises of
(a) Portfolios that have negatively correlated securities
(b) Portfolios that have positively correlated securities
(c) Inefficient portfolios
(d) Efficient portfolios
- (vi) Capital market line is
(a) Capital allocation line of a market portfolio
(b) Capital allocation line of a risk free asset
(c) Both a and b
(d) None of the above
- (vii) Factoring involves:
(a) Providing short term loan (b) Providing long term loan
(c) Financing of export receivables (d) Management of receivables of borrower

- (viii) What are people who buy or sell in the market to make profits called?
 (a) Hedgers (b) Speculators
 (c) Arbitrageurs (d) None of the above
- (ix) Which of the following is not a relevant cost in Capital Budgeting?
 (a) Sunk Cost (b) Opportunity Cost
 (c) Allocated Overheads (d) Both (a) and (c) above
- (x) What are the aspects of working capital management?
 (a) Inventory management (b) Receivable management
 (c) Cash management (d) All of the above

Fill in the blanks with the correct word

- (xi) Quick asset does not include _____.
- (xii) _____ method is based on the principle that every capital expenditure pays itself back within a certain period out of the additional earnings generated from the capital assets.
- (xiii) The internal rate of return is defined as the _____ rate that equates the present value of expected future receipts to the cost of the investment outlay.
- (xiv) There is no tax advantage for cost of _____ shares
- (xv) Firms which are capital intensive rely on _____.

Group - B

2. (a) What are Preference Shares? Briefly explain its features. [[CO3](Understand/LOCQ)]
 (b) Mr. A wants to buy a 9% Preference Share of ₹ 1000 each redeemable after 3 years at a premium for ₹ 1050. What is the value of the Preference Shares, assuming that the Required Rate of Return is 15%? [Given that PVAF and PVF values are 2.2832 and 0.6575 respectively]. [[CO4](Apply/IOCQ)]
 (c) XYZ Ltd has issued shares of ₹ 100 each, ₹ 90 Paid up. The rate of dividend is declared by the company as 10%. The Normal Rate of Return is 9%. Find the Value of share. [[CO4](Apply/IOCQ)]
4 + 4 + 4 = 12
3. (a) Define the scope of Financial Management. What role should the financial manager play in a modern enterprise? [[CO1](Remember/LOCQ)]
 (b) Aritra borrowed a Two wheeler loan from his employer of INR 1,00,000 at 9%. The Employer requires three equal end-of-year repayments. You are to advise Aritra the amount of annual instalment payable. [Given the PVF value for 3 years at 9% interest is 2.531]. [[CO3](Apply/IOCQ)]
(3 + 5) + 4 = 12

Group - C

4. (a) Explain "Cost of Capital" from a firm's perspective. [[CO5](Analyse/IOCQ)]

- (b) “Cost of Capital plays a vital role in decision-making process of financial management” Analyze the significant and important points to justify the statement. [[CO5](Analyze/IOCQ)]
- (c) K Ltd issues Rs. 1,00,000, 15% Debentures of Rs. 100 each. The company is in 40% tax bracket. You are required to compute the cost of debt after tax, if debentures are issued at (i) Par, (ii) 10% discount, and (iii) 10% Premium [[CO6](Apply/IOCQ)]
- 3 + 4 + (1 + 2 + 2) = 12**

5. (a) What do you mean by “Retained Earnings”? How is it generated? Does Retained Earning have a cost? If yes, then how? [[CO6](Remember/IOCQ)]
- (b) Kolkata Instruments Ltd has the following capital structure and, after tax, costs for the different sources of fund used:

Source	Amount (₹)	After-Tax Cost
Equity Share Capital	600000	13%
Preference Share Capital	300000	8%
Debentures	240000	5%
Retained Earnings	60000	9%

You are required to calculate the Weighted Average Cost of Capital.

[[CO6](Apply/IOCQ)]

4 + 8 = 12

Group - D

6. (a) Make a list, showing the constituents of Current Assets and Current Liabilities as exhibited in the Balance Sheet of a Limited Company. [[CO5](Understand/LOCQ)]
- (b) What is Current Assets? Give examples. Mention the two important characteristics of current assets? [[CO5](Remember/LOCQ)]
- 6 + 6 = 12**
7. (a) Advise the basic five elements for good Cash and liquidity management in a business organization. [[CO5](Analyze/IOCQ)]
- (b) Explain the “Transaction” motive of maintaining cash in a business firm. [[CO5](Understand/LOCQ)]
- (c) Differentiate between RTGS, NEFT and SWIFT as modes of Fund Transfer. [[CO5](Understand/LOCQ)]
- 4 + 4 + 4 = 12**

Group - E

8. (a) What is IRR? Expand IRR. Write a note on internal rate of return. [[CO2](Remember/LOCQ)]
- (b) Write a note on Profitability Index technique of evaluation of Capital Expenditure proposals. [[CO2](Remember/LOCQ)]
- (c) India Garments Ltd proposes for procuring an additional machinery costing ₹350000 with installation charges of ₹ 50000. The project consultant stated

that the uniform annual Cash Inflow resulting from this machine will be ₹ 50000 for 6 years. Calculate the Pay-back period for the project.

Given, The Present Value / Discount Factor Table

Year	1	2	3	4	5	6
PV @10%	0.909	0.826	0.751	0.683	0.621	0.546

[[CO2](Apply/IOCQ)]

4 + 4 + 4 = 12

9. (a) The initial cash outlay of a project is Rs. 1,00,000 and it generates cash inflow of ₹ 40,000. ₹30,000, ₹ 50,000 and ₹20,000. Assuming 10% rate of discount, calculate the Profitability index. [[CO6](Apply/IOCQ)]
- (b) KSG Ltd which has running its manufacturing business efficiently and profitably since more than a decade wants to go for expansion of its plant. Discuss the various sources of funding its expansion project that are available to GKS Ltd and which one do you think is the most cost effective. [[CO2](Apply/IOCQ)]
- (c) A project requires a cash outlay of ₹ 20,000, and generates cash inflows of ₹8,000; ₹ 7,000; ₹ 4,000; and ₹ 3,000 during the next 4 years. What is the project's payback?

Given, The Present Value / Discount Factor Table

Year	1	2	3	4	5	6
PV @10%	0.909	0.826	0.751	0.683	0.621	0.546

[[CO2](Apply/IOCQ)]

4 + 4 + 4 = 12

Cognition Level	LOCQ	IOCQ	HOCQ
Percentage distribution	41.66	58.34	0