

FINANCIAL MANAGEMENT
(CSBS 4133)

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) _____ is the most important of the three financial management decisions.
(a) Asset management decision. (b) Financing decision.
(c) Investment decision (d) Accounting decision
- (ii) In 2 years you are to receive Rs.10, 000. If the interest rate were to suddenly decrease, the present value of that future amount to you would _____.
(a) Fall. (b) Rise
(c) Remain unchanged. (d) Cannot be determined.
- (iii) Land at prime locations, modern buildings, machinery in good condition, etc are accepted as _____.
(a) Funds. (b) Security.
(c) Liquid cash. (d) Debt.
- (iv) Cost of capital is _____.
(a) Lesser than the cost of debt capital.
(b) Equal to the last dividend paid to the equity shareholders.
(c) Equal to the dividend expectations of equity shareholders for the coming year.
(d) None of the above.
- (v) When capital market is booming, firms can take market route to _____.
(a) Raise capital. (b) Decrease capital.
(c) Stop growing. (d) Stagnate.
- (vi) Net working capital refers to _____.
(a) total assets minus fixed assets.
(b) current assets minus current liabilities.
(c) current assets minus inventories.
(d) current assets.

- (vii) What are the various methods of estimating cash?
 (a) Receipts and payment method (b) Adjusted profit & loss method
 (c) Balance sheet method (d) All of the above
- (viii) Which of the following would be consistent with a *conservative* approach to financing working capital?
 (a) Financing short-term needs with short-term funds
 (b) Financing short-term needs with long-term debt.
 (c) Financing seasonal needs with short-term funds.
 (d) Financing some long-term needs with short-term funds
- (ix) Which of the following is the first step in capital budgeting process?
 (a) Final approval. (b) Screening the proposal.
 (c) Implementing proposal. (d) Identification of investment proposal.
- (x) A project costs Rs, 1,00,000 annual cash flow of Rs. 20,000 for 8 years. Its payback period is
 (a) 1 year. (b) 2 years.
 (c) 3 years. (d) 5 years.

Fill in the blanks with the correct word

- (xi) _____ is concerned with the acquisition, financing, and management of assets with some overall goal in mind.
- (xii) _____ Share funds need not be repayable during the life time of the organization.
- (xiii) Hirer is entitled to claim _____.
- (xiv) Financial structure refers to _____.
- (xv) The percentage of earnings paid as dividends is called _____

Group - B

2. (a) Name the 3 (Three) major Financial Statements required to be generated by a Public Limited Company. [[CO1](Remember/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) What is meant by a Public Limited Company as per Companies Act 2013? How it is different from Private limited company. [[CO1](Remember/LOCQ)]
- (b) What are the various forms of Business Organizations from commercial and legal angle? [[CO1](Remember/LOCQ)]

- (c) Mention 4 (four) major Functions of Financial Management. *[[CO1](Understand/LOCQ)]*
4 + 4 + 4 = 12

Group - C

4. (a) What is Return of Investment (ROI)? Discuss how the Absolute (R) and Relative (r) is computed for an investment. *[[CO4](Remember/IOCQ)]*
(b) An investor purchased the common stock of ABC company for Rs.100 and held it for three years. After three years, he sold it for Rs.125 and in the meantime, he received Rs.20 as dividends for three years. Calculate his total return (r in %). *[[CO4](Remember/LOCQ)]*
(3 + 3) + 6 = 12
5. (a) What is Earning Price Ratio method Cost of Equity and how is it computed? *[[CO2](Remember/LOCQ)]*
(b) The share capital of Beta Ltd is represented by 10,000 Equity Shares of Rs.10 each, fully paid. The current market price of the share is Rs. 40. Earnings available to the equity shareholders amount to Rs. 60,000 at the end of a period. Calculate the cost of equity share capital using Earning/Price ratio. *[[CO4](Apply/IOCQ)]*
(c) A company plans to issue 10,000 new Equity Shares of Rs.10 each to raise additional capital. The cost of floatation is expected to be 5%. Its current market price per share is Rs. 40. If the earnings per share is Rs.7.25, find out the cost of new equity. *[[CO4](Apply/IOCQ)]*
4 + 4 + 4 = 12

Group - D

6. (a) It is seen that Hotel Industry has lower percentage of Current Assets as compared to a Trading or Construction firm. Do you agree with the statement? Justify your answer with reasons. *[[CO5](Analyse/IOCQ)]*
(b) A Finance Manager states that substantial amount of working capital is to be arranged for the Fan Manufacturing Department of a Electrical company, while it is not so for the Bulb manufacturing department. Analyze critically the statement. *[[CO5](Apply/IOCQ)]*
(c) What do you mean by "Speculative" motive of maintaining cash in a business firm. *[[CO4](Remember/LOCQ)]*
4 + 4 + 4 = 12
7. (a) What is the 'Precautionary' motive of maintaining cash in a business organization? Explain clearly. *[[CO5](Remember/LOCQ)]*
(b) Can Cash Cycle be Negative? Support your answer with reasons and examples. *[[CO4](Analyse/IOCQ)]*
(c) What are the factors which influence the Working Capital of a firm. *[[CO5](Understand/IOCQ)]*
4 + 4 + 4 = 12

Group - E

8. (a) What is 'Post Pay-Back Profitability' method of Capital Budgeting technique. [[CO6](Remember/LOCQ)]
- (b) Computation of Cash Flow Data is one of the most difficult and important activity for evaluation of a project proposal. Explain the statement and show a blank format for its computation. [[CO2](Analyze/IOCQ)]
- (c) Briefly discuss the various steps involved in Capital Budgeting Process undertaken by a large business firm. [[CO6](Understand/LOCQ)]
- 2 + 4 + 6 = 12**

9. (a) "Capital budgeting is a complex process as it involves decisions relating to the enormous investment of current funds, uncertainty to achieve benefit in future." Reference to the above statement, write an account of standard procedure or steps that may be adopted in the process of Capital Budgeting. [[CO6](Analyze/IOCQ)]
- (b) A project is required to invest Rs 3,00,000 has the following expected returns over its estimated life of 6 years. Cost of the capital is 10 per cent.

Year	Cash Flow
1	60000
2	60000
3	100000
4	120000
5	80000

You, as a Finance Manager, suggest whether the Project is acceptable or not.

[[CO2](Apply/IOCQ)]

8 + 4 = 12

Cognition Level	LOCQ	IOCQ	HOCQ
Percentage distribution	43.75	56.25	0