

2010

FINANCIAL MANAGEMENT

FOURTH PAPER

Full Marks : 100

Time : 3 hours

*The figures in the margin indicate full marks
for the questions*

1. Write True or False : 1×5=5

- (a) Investment decision is an important managerial function.
- (b) Profit maximization means maximizing the rupee income of the firm.
- (c) Capital rationing is a situation where a firm has only one option to finance.
- (d) If the dividend on preference shares remain unpaid, then preference shareholders can give vote on resolutions of the company.
- (e) If the net profit margin is falling faster than the gross profit margin, it indicates that the cost of producing goods is increasing very fast.

2. Answer any five questions from the following : 7×5=35

- (a) Explain briefly any two functions of financial decision.
- (b) What is payback period? Briefly discuss how the payback period is evaluated.
- (c) Explain any two conservative methods for incorporating risk and uncertainty into project evaluation.
- (d) Mahindra Ltd. has the following dividend payment record :

<i>Year</i>	<i>Dividend</i>
2003	8%
2004	9.5%
2005	10%
2006	11%
2007	11.8%
2008	13%

The current market price of the company is Rs 370.

Calculate the—

- (i) growth rate in dividends;
 - (ii) cost of equity.
- (e) Define the terms Financial Leverage and Operating Leverage.

(f) What is the form in which dividends are paid?

(g) Define :

(i) Gross working capital

(ii) Net working capital

3. Answer any five questions from the following : 12×5=60

(a) The following data belong to Star Cement Ltd. :

Ratio	2006	2007	2008
Total Current Assets	16,800	21,000	23,000
Total Current Liabilities	8,000	8,500	10,000
Inventory	6,000	7,500	8,000

Assess the liquidity position of the company by calculating suitable ratios. Comment on the liquidity position of the company.

(b) Discuss the factors determining the working capital requirement of a company.

(c) Discuss the different types of debentures. Mention the salient features of debentures.

(d) (i) Write the equation of Net Present Value method.

- (ii) Discuss the Acceptance Rule of Net Present Value method.
- (iii) Calculate the Net Present Value for a project X which initially costs Rs 40,000 and generates year-end cashflows of Rs 15,000, Rs 22,000, Rs 30,000, Rs 28,000 and Rs 25,000 from 1st year to 5th year. The cost of capital is assumed to 10 percent.

Given :

Year	1	2	3	4	5
PVIF (10%)	0.909	0.826	0.751	0.683	0.620
(Discounting factor)					

- (e) Discuss the important objectives of inventory management.
- (f) Why is payment of dividend important for a company? Discuss any one of dividend theories.
- (g) Explain briefly the concept of wealth maximization. What are the limitations of wealth maximization?

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