FM

 MGT(S-II) — IX/12

2012

Time : 3 hours

Full Marks : 80

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

The questions are of equal value.

*Answer any **four** questions in which Q. No. 1 is compulsory.*

1. Choose the correct option from the following :

   (a) Finance function involves :

   (i) Procurement of finance only

   (ii) Expenditure of funds only

   (iii) Safe custody of funds only

   (iv) Procurement and effective utilization of funds

   (b) The goal of wealth maximisation takes into consideration :

   (i) Risk related to uncertainty of returns

(ii) Timing of expected return

(iii) Amount of returns expected

(iv) All of the above

(c) Financial Management is mainly concerned with :

(i) Arrangements of funds

(ii) All aspects of acquiring and utilizing means of financial resources for firm's activities

(iii) Efficient management of every business

(iv) None of the above

(d) Given the coupon rate to be constant, the value of bond as at approaches to maturity, will coverge to :

(i) Its par value

(ii) Redemption value

(iii) Issued value

(iv) None of the above

(e) Time value of money explains that :

(i) A unit of money received today is worth more than a unit received in future

(ii) A unit of money received today is worth less than a unit received in future

(iii) A unit of money received today and at some other time in future is equal

(iv) None of these

Whether the following statements are True **or** False :

(f) Time value of money signifies that the value of a unit of money remains unchanged during different time periods. F (T/F) T

(g) Return on any financial assets consists of current yield and capital yields. F (T/F) T

(h) Security Market Line (SML) and Capital Market Line (CML) are the same. F (T/F)

(i) Risk of an individual financial asset refers to variability of its return around mean returns. T (T/F)

(j) Financial Management deals with two major decisions/functions namely investment and financing decisions. T (T/F) T

2. Explain the goal or objectives of financial management.

3. Explain briefly the following :

   (i) Pay-back period

   (ii) Net Present Value Method

4. AAA Ltd. expects a net income of Rs. 80 lakhs. If he has 2 crores of 8% debentures. The equity capitalization rate of company is 10%. You are required to calculate :

   (i) Value of the firm

   (ii) Overall capitalization rate according to the Net income Approach

   (iii) If the debenture debt is increased to 3 crores, what shall be the value of firm and the overall capitalization rate.

5. A project costs Rs. 5,00,000 and has a scrap value of Rs. 1,00,000 after five years. The net profit before depreciation and taxes for the five years period are expected to be Rs. 1,00,000 ; Rs. 1,20,000 ; Rs. 1,40,000 ; Rs. 1,60,000 and Rs. 2,00,000.

   You are required to calculate the Average rate of return, assuming 50% rate of tax and depreciation on straight line method.

6. What do you mean by Capital Budgeting ? What are its importance ? Explain.

7. Explain the term 'Cost of Capital' ? Differentiate between cost of debt capital and cost of preference capital.

8. Explain Dividend Policy. What are the factors affecting dividend policy ?