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MGT/S-3-F/1/13

2013

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 four given multiple choices :
 - (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

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(Turn over)

- (b) From the following information about a certain equity stock, you are required to calculate the expected rate of return.

Price at the beginning of the year = Rs. 120

Dividend paid at the end of the year = Rs. 4.8

Price at the end of the year = Rs. 138

Then the rate of return is :

- (i) 18%
- (ii) 16%
- (iii) 15%
- (iv) 19%

- (c) 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 the above

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(d) The discounted cash flow is :

- (i) Pay-back period
- (ii) Average rate of return
- (iii) Profitability index
- (iv) None of the above

(e) Given the coupon rate to be constant, the value of bond as it approaches to maturity, will converge to :

- (i) Its par value
- (ii) Redemption value
- (iii) Issued value
- (iv) None of the above

State whether the following statements are True or False :

- (f) Return on any financial assets consists of current yield and capital yield. (T/F)
- (g) Security Market Line (SML) and Capital Market Line (CML) are the same. (T/F)

(h) Time value of a unit of money is different over different periods on account of the reinvestment opportunities with the firms. (T/F)

(i) In CAPM, Beta represents total risk i. e. systematic and unsystematic risk. (T/F)

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

2. Discuss the scope and functions of financial management.
3. What do you understand by the term Capital Structure ? Explain the features of optimum capital structure.
4. What is Preference Share ? Explain the different kinds of preference share.
5. Explain "Financial Leverage". Explain its significance in modern financial management system.

6. There are two mutually exclusive projects under active consideration of a company. Both the projects have a life of five years and have initial cash outlays of Rs. 1,00,000 each. The company pays tax at 50% rate and the maximum required rate of the company has been given as 10%. The straight line method of depreciation will be charged on the projects. The projects are expected to generate a net cash inflow before taxes as follows :

Year	Project A (Rs.)	Project B (Rs.)
1	40,000	60,000
2	40,000	30,000
3	40,000	20,000
4	40,000	50,000
5	40,000	50,000

With the help of the above given information, you are required to calculate :

- (a) The pay back period of each project.

- (b) The average rate of return for each project.
- (c) The NPV and profitability index for each project.

6. Write notes on any **two** of the following :

- (a) Future Cost and Historical Cost
- (b) Internal Rate of Return
- (c) Retained Earnings
- (d) Cost of Debt

