20/05/2019

Roll No. .... Total Pages : 4

OMMS/M-19 **13030**

FINANCIAL MANAGEMENT

Paper : CP-204

Time : Three Hours] [Maximum Marks : 70

Note : Attempt any *eight* questions from Part-A where each question carries 5 marks. From Part-B, attempt any *three* questions carrying 10 marks each.

PART–A

1. Describe the organisation structure of Finance Function.

2. Consider the project with the following expected cash flows:

Year	Cash flow
0	-$200,000
1	+50,000
2	+50,000
3	+$200,000.

If the discount rate is 5 per cent, what is the project's net present value?

3. Is it possible for a project's IRR to be less than its MIRR? Explain.

4. Is it possible for a project to not pay back, according to the discounted payback period method, and yet have a positive net present value? Explain.

5. Explain briefly the following :

   (a) Net Operating Income approach of capital structure.

   (b) ABC method of inventory control.

6. Define the terms – Stock Split, Stock reverse, Stock Dividend, Right issue, and Dividend pay-out ratio.

7. What specific strategies can be used to slow disbursements of accounts payables? Also explain strategies to speed up collection from accounts receivables.

8. Explain features, suitability and limitations of following sources of funds: Convertible Bonds, Bonus Issue, Preference Shares and Term loans.

9. ABC Ltd. Issues 10% debentures. The rate of tax is 50%. Determine the cost of debt before and after tax, if the debentures are issued at (i) 10% discount and (ii) 10% premium.

10. Explain the following terms :

    (a) Operating cycle.

    (b) Credit terms.

    (c) Cash Credit Limits.

    (d) Aggressive policy of working capital financing.

PART–B

11. A company is considering the purchase of one of two companies. Both of these companies have an expected return of 15% with the same standard deviation of returns. Company 1 has a positive correlation of returns with the acquiring company, while company 2 has a negative correlation. Which company should the acquiring company purchase if it must purchase one of them ?

(a) Company 1 because it reduces risk.

(b) Company 1 because it increases return.

(c) Company 2 because it reduces risk.

(d) Company 2 because it increases return.

12. ABC Ltd. has estimated its annual EBIT amounting to Rs. 4,00,000. The company has 8% debentures worth Rs. 10,00,000. The equity capitalisation rate or cost of capital is 10%. The company decides to redeem debentures worth Rs. 4,00,000 by issuing additional equity shares of Rs. 4,00,000. Calculate the total value of the company and its overall cost of capital. Also give your comments.

13. Write short notes on :

(a) Optimum capital structure?

(b) Home-made leverage.

(c) M-M dividend Model.

(d) Lock Box system and concentration Banking.

(e) Motives of holding cash.

14. A company has a total investment of Rs 5,00,000 in assets, and 50000 ordinary shares of Rs 10 per share (par value). It earns a rate of 15% on its investment, and has a policy of retaining 50% of the earnings. If the appropriate discount rate of the firm is 10 percent, determine the price of its share using Gordon's model.

What shall happen to the price if the company has a pay-out of 80% or 20%.

15. What are the objectives of effective inventory management? What are carrying costs and order costs? What is selective control of inventory? Why is it needed?