Roll No. .... **Total Pages : 03**

MMS/M-20 13037

FINANCIAL MANAGEMENT

CP-204

Time : Three Hours] [Maximum Marks : 70

Note : Q. No. **1** is compulsory and each part of it carries 4 marks. From question 2 to 9, attempt any *five* questions carrying 10 marks each.

1. Answer/Explain the following in up to maximum two page length each :

(a) What are difficulties in determining cash flows ?

(b) What are advantages and disadvantages of Non-Convertible Debentures ?

(c) Features of optimum capital structure.

(d) Explain relevance of Financial Modelling in decision-making.

(e) Describe, how cost of equity computed using CAPM model ?

2. (a) For an investor find the present value of Rs. 40,000 due three years. His interest rate is 10 per cent p.a.

(b) What do you mean by time value of money ? Answer with example.

3. Remco India Ltd. is considering two proposals A and B. Cost of Projects A and B are Rs. 24,000 and Rs. 35,000 respectively. Estimated life of Project A is 4 years and project B is 5 years. Scrap value for Projects A and B are Rs. 2,000, and Rs. 4,000 respectively. Each project will require an additional working capital of Rs. 2,000, which will be received back in full after expiry of the project life. Depreciation is provided under straight line method. Assuming a required rate of return of 10 per cent p.a. evaluate the investment proposals order using (a) Payback period method, (b) Average Rate of Return method, and (c) Profitability Index method. Inflows after depreciation and tax are as given below :

Year	Project A	Project B
2010 (Rs.)	1,000	—
2011 (Rs.)	2,500	4,200
2012 (Rs.)	4,000	4,200
2013 (Rs.)	3,000	4,200
2014 (Rs.)	—	4,200

4. A company is currently earning Rs. 1,00,000, its current market price per share is Rs. 100, outstanding equity shares are 10,000. The company decided to raise an additional capital of Rs. 2,50,000 through issue of equity shares to the public. It is expected to pay 10 per cent as flotation cost. Equity shares are issued at a discount of 10 per cent. The company is interested to pay a dividend of Rs. 8 per share. Calculate cost of equity.

5. Answer the following in short :

(a) What is the difference between M-M Approach of Dividend and Walter's dividend model ?

(b) Describe Probability Distribution method of risk analysis in investment decisions.

6. Explain the following approaches of capital structure, with example :

(a) NOI Approach

(b) Net Income Approach

7. Explain the following by giving example :

(a) Factors determining capital structure

(b) Considerations in dividend decision.

8. Explain features, suitability and limitations of the following sources of funds : Convertible Bonds, IPO, Preferences Shares and Commercial papers.

9. Explain the following terms :

(a) Core working capital

(b) Operating cycle

(c) Credit terms

(d) Cash Credit Limits

(e) Motives of holding cash.