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

OMMS/M-20 **13044**

FINANCIAL MANAGEMENT

CP-204

Time : Three Hours] [Maximum Marks : 70

Note : Attempt any *eight* questions carrying 5 marks each from Part A and attempt any *three* questions carrying 10 marks each from Part B.

Part A

1. Explain the objectives of Financial Management.

2. Is it possible for a project to have a payback period of 2 years and yet have a negative net present value? Explain.

3. What is the decision-criteria for the profitability index ? Does this criteria agree with that of the net present value technique ?

4. What is Optimum Capital Structure ? What are the features of optimum capital structure ?

5. Describe with example the procedure for calculating Weighted Average Cost of Capital.

6. What are the external factors affecting capital structure of a firm ?

7. Explain and illustrate Gordon Dividend Model.

8. Explain three sources of short-term finance used by a company.

9. What do you mean by receivables management ? What key variables should be considered in evaluating changes in credit policy ?

10. Explain with example "Decision tree approach of risk analysis".

Part B

11. A company is considering a proposal of installing a dying equipment. The equipment would involve cash outlay of Rs. 5 lakh and working capital of Rs. 50,000. The expected life of the project is six years without any salvage value. Assume that the company is allowed to charge depreciation on straight line basis for tax purposes, and that the tax rate is 40%. The estimate before tax cash flow are given below :

Before-Tax Cash Flows (Rs. '000)

Year :	1	2	3	4	5	6
Cash flows:	200	170	150	150	110	100

If the company's opportunity cost of capital is 12 per cent, calculate the equipment's net present value and internal rate of return.

12. Standard Bank of India has a scheme open to all individuals/firms. A lumpsum deposit is remitted and the principal is received with interest @ 12% p.a. in 12 or 24 monthly instalments. The interest is compounded at quarterly intervals.

Calculate the amount of initial deposit to receive a monthly installment of Rs. 100 for 12 months.

13. Answer the following questions :

(a) Explain briefly the different approaches to the computation of the cost of equity capital.

(b) Calculate the explicit cost of debt when debentures are sold at premium of 10 per cent and flotation costs are 5 per cent of issue price. Assume coupon rate of interest on debentures is 12 per cent; face value of a debenture is Rs. 200; maturity period is 5 years; and tax rate is 30 per cent.

14. Explain the following by giving example :

(a) Factors determining capital structure

(b) Considerations in dividend decision.

15. Discuss the utility of cash budget in cash management. What are the steps in preparation of cash budget ?