

**2013**

Full Marks : 70

Time : As in the programme

*The figures in the right-hand margin indicate marks.*

*Answer questions as directed in each section.*

**Section - A**

**(Answer any three questions)**

12×3=36

1. Project A and Project B cost Rs. 40,000 and Rs. 25,000 respectively with the following expected net cash inflows (i.e., after taxes and before depreciation).

*[Turn over]*

[2]

Year	Net cash flows for Project A (in Rs.)	Net cash flows for Project B (in Rs.)	Pv Factor 10%	Pv Factor 15%
1	6000	7000	0.909	0.870
2	6000	7000	0.826	0.756
3	6000	7000	0.751	0.658
4	6000	7000	0.683	0.572
5	6000	7000	0.621	0.497
6	8000	6000	0.564	0.432
7	10000	5000	0.513	0.376
8	7000	5000	0.467	0.327
9	4000	7000	0.424	0.284
10	4000	4000	0.386	0.247

Determine the "Internal Rate of Return" with the help of 10% discounting factor and 15% discounting factor and decide which project is more profitable.

2. Define Financial Management. Explain how the finance function is related to other business functions.

[ 3 ]

3. From the following information, you are required to find out the cost of equity capital for Firm A, Firm B, Firm C, assuming that the cost of equity capital ( $K_e$ ) is varying at different levels of debt, and the cost of overall capital is 12%, 14% and 16%, for Firm A, B and C respectively.
4. Define capital structure and discuss the different approaches to the different theories of it.
5. Bring out the concept of working capital clearly. Discuss the methods of assessing working capital requirement.

**Section - B**

**(Answer any three questions)**

$8 \times 3 = 24$

6. Why wealth maximization is an important aspect of Financial management?
7. Discuss the different types of Capital Budgeting decision.
8. A company is considering to purchase a machine. Two machines are available, X and Y costing Rs. 50,000 each. Earnings after taxation are expected to be as follows:

Year	Earnings after tax	
	Machine X	Machine Y
1	15,000	5,000
2	20,000	15,000
3	25,000	20,000
4	15,000	30,000
5	10,000	20,000

Evaluate the two alternatives according to:

- (a) Pay back method
- (b) Return on investment methods
- (c) NPV methods (cost of capital 10%).

9. Discuss the WACC with examples.
10. A corporation has the following capital structure at the end of July 1988:

	Rs.
12% 1988 Debenture	15,00,000
9% preferred Stock	10,00,000
Equity Stock (1,20,000 shares of Rs. 10 each)	12,00,000

[ 5 ]

A company has the marginal tax rate of 50%. It is expected to pay dividend of Rs.1.50 per share this year and this dividend is expected to grow at the annual rate of 10% in the future. From the above information you are required to find out the firm's cost of capital.

**Section - C**

**(Answer any two questions)**

5×2=10

11. Discuss Inventory Management and its advantages.
  12. Discuss Walter's model, Gordon's model.
  13. Explain the criticism of MM approach.
  14. Write a note on Financial Leverage.
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