

KRISHNA KANTA HANDIQUI STATE OPEN UNIVERSITY
PGDBM/MBA 2nd Sem. Examination, 2015
Paper Code: 07

Paper : Financial Management
Time: 3 hours Maximum marks: 80

The figures in the margin indicate full marks for the questions

- 1 Answer any five questions from the following 2×5=10
- What is two-bin system of inventory control?
 - What is credit standard?
 - What is bonus share?
 - What is capital structure?
 - What do you mean by specific cost of capital?
 - What is the acceptance rules for Accounting Rate of Return Method of investment decision?
 - What do you mean by 'Equity Fund'?
- 2 Answer any three questions from the following 4×3=12
- What is compounding in relation to accounting for time value of money?
 - Why investment decisions are important for a firm?
 - Assam Teac Co. issues 10% irredeemable preference shares @ Rs. 95 with a face value of Rs 100 per share. Calculate (a) the cost of preference share (b) cost of preference share if the issue price is Rs 110.
 - What are the benefits of issuing bonus shares?
 - The installed capacity of a factory is 6000 unit per annum. Actual capacity used is 4000 unit per annum. Selling price per unit is Rs 10. Variable cost is Rs 6 per unit. Calculate operating leverage when fixed cost is Rs 4000 per annum.

- 3 Answer any three questions from the following 6×3=18
- How a business estimates its working capital needs? Discuss.
 - Discuss the role played by the financial manager in a firm.
 - Critically evaluate the net present value method of capital budgeting techniques.
 - Discuss the Capital Asset Pricing Model (CAPM) of calculating cost of equity.
 - Discuss the Net Income Approach of capital structure.

- 4 Answer any four questions from the following 10×4=40
- Discuss FRICT analysis. Also discuss about various elements of capital structure.
 - Critically evaluate the 'Walter's Model' of dividend decision.
 - What are the determinants of working capital? Discuss.
 - Why inventory management is important for a firm? Discuss various techniques of inventory management.
 - Discuss the payback method of evaluating investment projects.
 - The capital structure and after tax cost of capital of the specific course of XY Ltd. is as follows –

Source	Amount (Rs.)	Cost of capital
Debt	3,00,000	4.77%
Preference capital	2,00,000	10.53%
Equity capital	4,00,000	4.59%
Retained earnings	1,00,000	14.00%

Calculate weighted average cost of capital.