2013

Time : 3 hours

Full Marks : 80

Candidates are required to give their answers in their own words as far as practicable.

The questions are of equal value.

Answer any four questions in which Q. No. 1 is compulsory.

1. Choose the correct option from the four given multiple choices:

(a) Finance function involves:
   (i) Procurement of finance only
   (ii) Expenditure of funds only
   (iii) Safe custody of funds only
   (iv) Procurement and effective utilization of funds

SA – 19/3 (Turn over)
(b) From the following information about a certain equity stock, you are required to calculate the expected rate of return.

Price at the beginning of the year = Rs. 120
Dividend paid at the end of the year = Rs. 4.8
Price at the end of the year = Rs. 138

Then the rate of return is:

(i) 18%
(ii) 16%
(iii) 15%
(iv) 19%

(c) Time value of money explains that:

(i) A unit of money received today is worth more than a unit received in future
(ii) A unit of money received today is worth less than a unit received in future
(iii) A unit of money received today and at some other time in future is equal
(iv) None of the above

SA – 19/3 (2) Contd.
(b) From the following information about a certain equity stock, you are required to calculate the expected rate of return.

Price at the beginning of the year = Rs. 120
Dividend paid at the end of the year = Rs. 4.8
Price at the end of the year = Rs. 138

Then the rate of return is:

(i) 18%
(ii) 16%
(iii) 15%
(iv) 19%

(c) Time value of money explains that:

(i) A unit of money received today is worth more than a unit received in future
(ii) A unit of money received today is worth less than a unit received in future
(iii) A unit of money received today and at some other time in future is equal
(iv) None of the above

SA - 19/3 (2) Contd.
(d) The discounted cash flow is:

(i) Pay-back period

(ii) Average rate of return

(iii) Profitability index

(iv) None of the above

(e) Given the coupon rate to be constant, the value of bond as it approaches to maturity, will converge to:

(i) Its par value

(ii) Redemption value

(iii) Issued value

(iv) None of the above

State whether the following statements are True or False:

(f) Return on any financial assets consists of current yield and capital yield. (T/F)

(g) Security Market Line (SML) and Capital Market Line (CML) are the same. (T/F)

SA – 19/3 ( 3 ) (Turn over)
(h) Time value of a unit of money is different over different periods on account of the reinvestment opportunities with the firms. (T/F)

(i) In CAPM, Beta represents total risk i.e. systematic and unsystematic risk. (T/F)

(j) Financial Management deals with two major decisions/functions namely investment and financing decisions. (T/F)

2. Discuss the scope and functions of financial management.

3. What do you understand by the term Capital Structure? Explain the features of optimum capital structure.

4. What is Preference Share? Explain the different kinds of preference share.

5. Explain "Financial Leverage". Explain its significance in modern financial management system.

SA – 19/3 (4) Contd.
6. There are two mutually exclusive projects under active consideration of a company. Both the projects have a life of five years and have initial cash outlays of Rs. 1,00,000 each. The company pays tax at 50% rate and the maximum required rate of the company has been given as 10%. The straight line method of depreciation will be charged on the projects. The projects are expected to generate a net cash inflow before taxes as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Project A (Rs.)</th>
<th>Project B (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>40,000</td>
<td>60,000</td>
</tr>
<tr>
<td>2</td>
<td>40,000</td>
<td>30,000</td>
</tr>
<tr>
<td>3</td>
<td>40,000</td>
<td>20,000</td>
</tr>
<tr>
<td>4</td>
<td>40,000</td>
<td>50,000</td>
</tr>
<tr>
<td>5</td>
<td>40,000</td>
<td>50,000</td>
</tr>
</tbody>
</table>

With the help of the above given information, you are required to calculate:

(a) The pay back period of each project.

SA – 19/3 (5) (Turn over)
(b) The average rate of return for each project.

(c) The NPV and profitability index for each project.

6. Write notes on any two of the following:

(a) Future Cost and Historical Cost

(b) Internal Rate of Return

(c) Retained Earnings

(d) Cost of Debt