MAY 2011 **P/ID 77607/PBE1H**

Time : Three hours Maximum : 100 marks

PART A — (5 × 6 = 30 marks)

Answer any FIVE questions.

All questions carry equal marks.

1. How is the finance function organised in a large organisation?

2. A manager in your firm decides to employ break ever analysis. Of what short comings should this manager be aware?

3. What is the purpose of holding inventory? Name several types of inventory techniques.

4. How is the cost of debt calculated?

5. What are the key difference between debt and equity?

6. Define the term operating leverage. What type of effect occurs when the firm uses operating leverage?

7. Define the hedging principle. How can this principle be used in the management of working capital?

8. Explain how a fixed cash budget differs from a variable or flexible cash budget.

PART B — (5 × 10 = 50 marks)

Answer any FIVE questions.

All questions carry equal marks.

9. Describe the salient features of the traditional and modern approaches to financial management.

10. A cash budget is usually thought of as a means of planning for future financing needs. Why would a cash budget also be important for a firm that had excess cash on hand?

11. The following information is available for Siva International Corporation :

Selling price per unit	= Rs. 20
Variable cost per unit	= Rs. 12
Total fixed cost	= Rs. 5,60,000

(a) What is the break-even output?

(b) What is the profit earned when the output is 1,00,000 units?

(c) What should be the output to achieve a target profit of Rs. 4,00,000?

(d) What is the break-even sales in rupees?

12. What factors determine the size of the investment a firm makes in accounts receivable? Which of these factors are under the control of the financial manager?

13. Describe the guidelines and directives recommenced by Tandon Committee and the Chore Committee.

14. Discuss the application of CAPM to the calculation of cost of equity.

15. What factors effect the cost of long term debt?

16. Elucidate the concept of Finance Information System. State its uses.

PART C — ($1 \times 20 = 20$ marks)

(Compulsory)

17. The following information is available for Radha Metals. :

Net operating income	:	Rs. 40 million
Interest on debt	:	Rs. 10 million
Cost of equity	:	18 percent
Cost of debt	:	12 percent

(a) What is the average cost of capital of Radha?

(b) What happens to the average cost of capital of Radha, if it employs Rs. 100 million of debt to finance a project which earns an operating income of Rs. 20 million? Assume that the net operating income (NOI) method applies and there are no taxes.