

MAY 2012

P/ID 6012/MBM

Time : Three hours

Maximum : 80 marks

PART A — (8 × 5 = 40 marks)

Answer any EIGHT questions.

All questions carry equal marks.

1. State the importance of financial management.
2. What is wealth maximization objective? How do you maximize the wealth of shareholders?
3. Explain briefly various financial management decisions.
4. State the impact of operating leverage on profits.
5. What are the limitations of cost volume profit analysis?
6. What do you understand by Breakeven point. What are the uses of breakeven point?
7. Define the economic order quantity. How is it computed?

8. Discuss the concept of working capital cycle. Why is it important?
9. How is the weighted average cost of capital calculated?
10. What are the uses of Combined Leverage?
11. What is Budgetary control? Explain its objectives.
12. Write a note on Financial information System.

PART B — (4 × 10 = 40 marks)

Answer any FOUR questions.

All questions carry equal marks.

13. “Investment, financing and dividend decisions are all inter-related” comment.
14. What is lead time? How does it affect the computation of re-order point under certainty and uncertainty?
15. Describe the important features of the Chore committee recommendations.

16. Distinguish between zero base budgeting and traditional budgeting.

17. A company is to start a new project which is having cost of Rs. 1,00,000 and life of 5 years. Salvage value is nil, tax rate for the company is 50% and it follows written down method of depreciation. The cash flows before tax (CFBT) are as follows :

Year :	1	2	3	4	5
CFBT (Rs.) :	35,000	35,000	40,000	30,000	20,000

Using 10% cost of capital, compute the following :

- (a) Payback period.
- (b) Average rate of return.
- (c) Internal Rate of Return

18. The Blue Dog Company has common stock outstanding that has a current price of \$20 per share and a \$0.5 dividend. Blue Dog's dividends are expected to grow at a rate of 3% per year, forever. The expected risk-free rate of interest is 2.5%, whereas the expected market premium is 5%. The beta on Blue Dog's stock is 1.2.

Questions :

- (a) What is the cost of equity for Blue Dog using the dividend valuation model?
 - (b) What is the cost of equity for Blue Dog using the capital asset pricing model?
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