

MAY 2011

P/ID 6012/MBM

Time : Three hours

Maximum : 80 marks

PART A — (8 × 5 = 40 marks)

Answer any EIGHT questions.

1. What are the financial objectives of a firm?
2. Write short notes on wealth maximisation with reference to society.
3. Explain the important attributes of financial statements.
4. What are the features of current cost accounting method?
5. Explain the break even analysis in profit planning.
6. How do the temporary cash surplus managed?
7. What is credit risk? How do you assess it?
8. Write a short note on VED analysis.
9. What are the disadvantages of under capitalisation?
10. What is meant by weighted average cost of capital?

11. Explain the concept of financial leverage.
12. How zero base budgeting differ from traditional budgeting?

PART B — (4 × 10 = 40 marks)

Answer any FOUR questions.

All questions carry equal marks.

13. Explain, how Cost Volume Profit (CVP) based sensitivity analysis can help managers copeup with uncertainty.
14. Discuss the steps involved in evaluation of credit period extension.
15. What are the various forms of working capital finance available from banks?
16. Critically evaluate the MM theory on capital structure.
17. XYZ Ltd intends to setup a project with capital cost of Rs. 50,00,000. It is considering the three alternative proposals of financing
Alternative I = 100% equity financing
Alternative II = Debt-equity 1 :1
Alternative III = Debt-equity 3 :1

The estimated annual net cash inflow is @ 24% ie Rs. 12,00,000 on the project. The rate of interest on debt is 15%. Calculate the weighted average cost of capital for three different alternatives and analyse the capital structure decision.

18. A company wishes to arrange overdraft facilities with its bankers during the period April to June when it will be manufacturing most for stock. Prepare a cash budget for the above period for the following data, indicating the extent of bank facilities the company will require at the end of each month

	Sales (Rs.)	Purchases (Rs.)	Wages (Rs.)
February	1,80,000	1,24,800	12,000
March	1,92,000	1,44,000	14,000
April	1,08,000	2,43,000	11,000
May	1,74,000	2,46,000	10,000
June	1,26,000	2,68,000	15,000

50% of credit sales are realised in the month following sales and the remaining 50% in the second month following. Creditors are paid in the month following the month of purchase. Wages are paid on the first of every next month. Cash at bank on 1st April Rs. 25,000.