

MAY 2012

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. Define the scope of financial management.
2. Explain the theories of capitalisation.
3. How bank reconciliation statement is useful for business?
4. What is finance function? What are its aims?
5. How can we allocate indirect costs to programs?
6. What is composite leverage? How it is measured?
7. How do we interpret our financial statements?
8. What financial reports do management and the board need?

PART B — (5 × 10 = 50 marks)

Answer any FIVE questions.

All questions carry equal marks.

9. “Investment, financing and dividend decisions are inter related”. Discuss.
10. Briefly discuss the capital budgeting practices of companies in India.
11. The capital structure of A Ltd. consists of equity share capital of Rs. 1,00,000 and 8% Debentures of Rs. 50,000. The fixed costs are Rs. 10,000. You are required to calculate the operating and financial leverages when earnings before interest and tax is Rs. 20,000.
12. What do you think is appropriate combination of financial and operating leverage?
13. How will you find out the cost of specific sources of capital? Explain with examples.
14. What do you understand by ploughing back of profits? Explain its advantages.
15. Discuss the application of CAPM to the calculation of cost of equity.
16. Discuss in detail, the factors which determine the capital structure of a firm.

PART C — (1 × 20 = 20 marks)

(Compulsory)

17. The following information relates to X Ltd.

Earning per share Rs. 30

Productivity of retained earnings (r) 15%

Capitalisation rate (K) 15%

What is the market price per share according to the Walter model if the payout is :

(a) 20%

(b) 40%

(c) 60%.

Give your comments.
