**MAY 2013**

# P/ID 77607/PBE1H/ PBEXH

Time : Three hours | Maximum : 100 marks

PART A — (5 × 6 = 30 marks)

Answer any FIVE questions.

All questions carry equal marks.

1. Explain the approaches to financial management.
2. Define financial planning.
3. What are mutually exclusive proposals?
4. What are the advantages of pay back period?
5. What is a debenture? Discuss the different types of debentures.
6. Explain the term leverage. What are its types?
7. How capital expenditure decisions are classified?
8. What is an finance information system?

PART B — (5 × 10 = 50 marks)

Answer any FIVE questions.

All questions carry equal marks.

9. Discuss the organisation of finance function in a large organisation.

10. How “working capital decisions” are different from ‘capital budgeting decisions’?

11. The earnings per share of a company is Rs. 12. The cost of equity capital is 10%. The rate of return on investments is 15%. Compute the market price per share under walter’s model if the payout is

    (a) 50%

    (b) 75%.

12. Define cost of capital. Explain its significance in financial decision making.

13. “There is nothing like an optimum capital structure for a firm”. Critically examine this statement.

14. Discuss the advantages and limitation of term loan as a source of finance.

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

16. Briefly explain the purposes served by budgeting.

PART C — ($1 \times 20 = 20$ marks)

Compulsory.

17. X Ltd proposes to raise additional funds of Rs. 10 Lakhs for executing its investment plans. The company has Rs. 2 lakhs in the form of retained earnings, for investment. The details are given below :

(a) Debt/Equity mix 30%/70%

(b) Cost of debt

Up to Rs. 2,00,000 10% before tax

Above Rs. 2,00,000, 14% before tax.

(c) Earnings per share Rs. 4

(d) Dividend payout 50%

(e) Expected growth in dividend 10%

(f) Current market price per share Rs. 50

You are requested to

(i) Finalise the pattern of raising additional finance

(ii) Determine the average cost of additional debt

(iii) Compute the overall weighted average after tax cost of additional finance.