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15/7/22

BINA CHOWDHURY CENTRAL LIBRARY
(GIMT & GIPS)
Azara, Hatkhowapara,
Guwahati -781017

2022

M.B.A. 2nd Semester End-Term Examination

FINANCIAL MANAGEMENT

(New Regulation and New Syllabus w.e.f. 2017-18)

Full Marks – 70

Time – Three hours

The figures in the margin indicate full marks
for the questions.

Answer question No. 1 and any *four* from the rest.

1. Choose the correct answer : (10 × 1 = 10)
- (i) The decision relating to disbursement of profits or income of an organization is known as _____ (1)
- (a) Capital structure decision
- (b) Capital budgeting decision
- (c) Dividend decision
- (d) None of the above
- (ii) The concept that value of a rupee to be received in future is less than the value of a rupee on hand today is named as _____ (1)
- (a) Recovery factor concept
- (b) Time value of money
- (c) Compounding factor concept
- (d) None of the above

[Turn over

- (iii) The price of a security at the beginning of year is Rs. 100, the price at the end of the year is Rs. 125 and dividend paid at the end of the year is Rs. 5. The total return of the security is _____ (1)
- (a) 10% (b) 20%
- (c) 30% (d) None of the above
- (iv) Long-term financial decisions involve _____ (1)
- (a) Investment, financing and dividend decisions
- (b) Investment, financing and sales decisions
- (c) Financing, dividend and cash decisions
- (d) None of the above
- (v) The rate of discount at which NPV of a project becomes zero is also known as _____ (1)
- (a) Average Rate of Return
- (b) Internal Rate of Return
- (c) Profitability Index
- (d) None of the above
- (vi) In capital budgeting decision, which of the following evaluation methods determine the number of years required to recover the initial investment outlay? (1)
- (a) Net Present Value
- (b) Internal Rate of Return
- (c) Benefit Cost Ratio
- (d) Payback period
- (vii) Inventory turnover measures the relationship of inventory with _____ (1)
- (a) Cost of goods sold
- (b) Net sales
- (c) Total purchases of inventory
- (d) Total current assets

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(viii) The dividend that is paid in the middle of a financial year when the company earns enough profit is called _____ (1)

- (a) Annual dividend
- (b) Interim dividend
- (c) Both (a) and (b)
- (d) None of the above

(ix) In dividend decision, which of the following is NOT very much relevant? (1)

- (a) Capital market conditions
- (b) Industry practice
- (c) Availability of disposable profit
- (d) Investor's expectations for dividend

(x) The motives for holding cash is/are (1)

- (a) Transaction motive
- (b) Speculative motive
- (c) Precautionary motive
- (d) All of the above

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2. (a) 'The wealth maximisation objective is superior to the profit maximisation objective'. Do you agree? Justify your answer. (5)

(b) Discuss the long-term and short-term finance decisions in a present-day organisation. (10)

3. (a) Is it possible for a firm to have a high current ratio and still find difficulties in paying its current debt? Explain with a suitable illustration. (3)

(b) From the following information presented by a firm for the year ended March 31, 2022, prepare the following Balance Sheet (12)

Estimated Annual Sales – Rs. 2,00,000

Sales to Share Capital – 2.5

Current Liabilities to Share Capital – 25%

Total Debt to Share Capital – 60%

Current Ratio – 3.6

Net Sales to Inventory – 4 times

Average Collection Period – 36 days (A year = 360 days)

Fixed Assets to Share Capital – 70%

Balance Sheet as on 31-03-2022

Owners' Equity & Liabilities	Amount	Assets	Amount
Share Capital	_____	Fixed Assets	_____
Total Liabilities	_____	Current Assets	_____
• Long-term Liabilities	_____	• Inventory	_____
• Current Liabilities	_____	• Debtors	_____
		• Cash	_____
Total	_____	Total	_____

4. (a) Do you think the capital budgeting decisions are vital for a firm? If so, why? (3)
- (b) Excel Industries Ltd. is evaluating an investment proposal for which, the following details are given below – (12)

Initial Outlay	Rs. 1,50,000
Net Cash Inflow:	
End of the year 1	Rs. 1,00,000
2	Rs. 80,000
3	Rs. 50,000
4	Rs. 30,000
5	Rs. 20,000

The firm can arrange necessary funds at 10 per cent. Compute NPV, Profitability Ratio and Payback period of the project proposal. Advise whether the project is worth enough to be accepted or not.

5. (a) 'Debt is the cheapest source of funds'. Do you agree? Justify your answer. (3)
- (b) Genius Limited is capitalized with Rs. 1,00,000 divided in 10,000 common shares of Rs. 10 each. The management wishes to raise another Rs. 1,00,000 to finance a small programme of expansion through one of the four possible financial plans. The management may finance the company with (i) All common stock (ii) Rs. 50,000 in common stock and Rs. 50,000 in debt at 5% interest (iii) All debt at 6% interest or (iv) Rs. 50,000 in common stock and Rs. 50,000 in preferred stock with 5% dividend. The company's existing EBIT amounted to Rs. 1,20,000 and the corporate tax rate is assumed to be 50%. Determine the EPS for the four financing alternatives and also advise which alternative will be the best. (12)
6. (a) Define dividend. What are the different types of dividends a company can declare? (2+3=5)
- (b) From the following data, forecast the cash position of the firm at the end of April, May and June 2022. (10)

Months	Sales (in Rs.)	Purchases (in Rs.)	Wages (in Rs.)	Expenses (in Rs.)
February 2022	6,00,000	4,20,000	50,000	35,000
March 2022	6,50,000	5,00,000	60,000	40,000
April 2022	4,00,000	5,20,000	40,000	30,000
May 2022	5,80,000	5,30,000	50,000	60,000
June 2022	4,40,000	4,00,000	40,000	30,000

Additional Information

- (i) Sales: 10% realised in the month of sales; balance realised equally in two subsequent months.
- (ii) Purchases: These are paid in the month following the month of supply.
- (iii) Wages: 10% paid in arrears in the following month.
- (iv) Expenses: Paid a month in arrears.
- (v) Rent: Rs. 5000 per month paid quarterly in advance and due in April.
- (vi) Income Tax: First installment of advance tax is Rs. 1,50,000 and due on or before June 15.
- (vii) Income from investment: Rs. 30,000 received quarterly in April and so on.
- (viii) Cash in hand on April 1, 2022 is Rs. 30,000.

7. Write notes on (any *three*):

(3 × 5 = 15)

- (a) Importance of finance in business organizations.
- (b) Pros and cons of debenture financing.
- (c) Rights and Bonus Shares.
- (d) Permanent and variable working capital.
- (e) Importance of Receivables Management in business organizations.

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