INDIAN MARITIME UNIVERSITY
(A CENTRAL UNIVERSITY, GOVT. OF INDIA)

SEMESTER- II, SCHOOL OF MARITIME MANAGEMENT– JUNE 2014 EXAMS

FINANCIAL MANAGEMENT (T 1202)

(AY 2013-14 batches onwards)

Time:- 3 Hrs **Max Marks : 60**

Date: 20.06.2014

SECTION - A **(12 X1 = 12 Marks)**

Answer all the Questions. All Questions carry equal marks

1. The following one is not the key objectives of financial management
   a) Create wealth for the business b) Generate cash,
   c) Provide an adequate return on investment d) Maintain adequate stock

2. _____ is concerned with the maximization of a firm's stock price
   a) Shareholder wealth maximization b) Profit Maximization
   c) Stakeholder welfare maximization d) EPS maximization

3. Cost of Capital refers to:
   a) Flotation Cost b) Dividend c) Required Rate of Return d) None of the above.

4. What is the rate of discount at which the Net Present Value of an investment is zero called
   a) Junior Debt b) In the Money c) Inventory Turnover d) Internal Rate of Return.

5. In order to calculate the proportion of equity financing used by the company, the following should be used:
   a) Authorized Share Capital b) Equity Share Capital plus Reserves and Surplus
   c) Equity Share Capital plus Preference Share Capital d) Equity Share Capital plus Long-term Debt.

6. Basic assumption of the NI approach
   a) The cost of debt is less than the cost of equity b) The cost of revenue should be more
   c) Net operating income approach d) Net traditional approach.

7. Debt Financing is a cheaper source of finance because of:
   a) Time Value of Money b) Rate of Interest
   c) Tax-deductibility of Interest, d) Dividends not Payable to lenders.

8. The cost of capital plays a crucial role in the financial management for taking important _____
   a) Managerial decision b) Financial decision c) Marketing decision d) Dividend decision

9. Which of the following argues that the value of levered firm is higher than that of the unlevered firm?
   a) Net Income Approach
   b) Net Operating Income Approach
   c) MM Model with taxes
   d) Both (a) and (c)

10. The term capitalization is the valuation of the capital which includes the capital stock and _____
   a) Loan
   b) Profit
   c) Debt
   d) Loss

11. Which of the following term refers to a uniform cash flows or a series of equal annual payments for specified period of time?
   a) Annuity
   b) Discount rate
   c) Effective rate
   d) None of the above

12. In the periods of boom and depression , which one of the following requires more than the normal times
   a) Debt
   b) Equity
   c) Working capital
   d) None of the above

SECTION - B **(5 X4 = 20 Marks)**

Answer any FIVE questions not exceeding 200 words. All questions carry equal marks

13. -1-2008 Rakul ltd. Offers for public subscription of equity shares of Rs. 10 each at a premium of 10%. The company pays an underwriting commission of 5% on the issue price. the equity shareholders expect a dividend of 15%.
   (a) Calculate the cost of equity capital.
   (b) Calculate the cost of equity capital, if the market price of the share is Rs.20.

14. Write a note on profit maximization Vs wealth maximization

15. A company has to choose one of the following two mutually exclusive projects. Both the project has to be depreciated on Straight line basis. The tax rate is 50% cash inflows (Profit before Depreciation and tax)

Year	Project A	Project B
0	15000	15000
1	4200	4200
2	4800	4500
3	7000	4000
4	8000	5000
5	2000	10000

You have to use pay-back period as the criterion

16. Write note on inflation adjusted cost of debt

17. Explain the factors determine working capital requirements

18. Explain the Modigliani-miller dividend irrelevance hypothesis?

19. Explain the concept of certainty equivalent co-efficient

SECTION - C (4 X7 = 28 Marks)

Answer question no.20 (compulsory) and any 3(three) from the rest:

20. XYZ expects a net operating income of Rs. 2,00,000. It has 8,00,000, 6% debentures.The overall capitalization rate is 10%. Calculate the value of the firm and the equity Capitalization rate (Cost of Equity) according to the net operating income approach. If the debentures debt is increased to Rs. 10, 00,000. What will be the effect on volume of the firm and the equity capitalization rate?

21. CMC ltd. Earnings Rs. 5 per share. The capitalization rate is 10% and the returns on investment is 12%.

    Under the Walters model, determine

    (a) The optimum payout

    (b) The market price of the share at this payout.

    (c) The market price of the share if the payout is 40%.

22. "High degree of financial leverage means High debt proportion"-Comment

23. "The equity Shareholders get the residual profit of the firm"-Discuss.

24. Explain the determinants of dividend policy

25. "Finance function of a business is closely related to its other function"-Discuss

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