

Exam. Code : 111805

Subject Code : 3458

**Bachelor of Vocation (Retail Management)**

**5<sup>th</sup> Semester**

**FINANCIAL MANAGEMENT**

**Paper : BVRM-502**

Time Allowed—3 Hours] [Maximum Marks—50

**SECTION—A**

**Note :—** Attempt any **TEN** short answer questions from the following **TWELVE** questions carrying **1** mark each. The length of answer to each question should be in up to **5** lines.

1. (1) What do you mean by discounting of cash flows ?
- (2) What do you mean by implicit cost of capital ?
- (3) What do you mean by financial leverage ?
- (4) What do you mean by net income ?
- (5) What do you mean by perfect capital market ?
- (6) What do you mean by convertible debt ?
- (7) What do you mean by mutually exclusive projects ?

- (8) What do you mean by initial investment ?
- (9) What do you mean by payout ratio ?
- (10) What do you mean by interim dividend ?
- (11) What do you mean by inventory carrying cost ?
- (12) What do you mean by delinquent accounts ?

### SECTION—B

**Note** :— Attempt any **TWO** questions carrying **10** marks each. The length of answer to each question should be in up to **5** pages.

2. What are the strategic functions of financial management ? Examine the significance of effective financial management.
3. Examine the relationship between capital structure and cost of capital. How is the optimal capital structure determined with the help of net income approach ?
4. What do you mean by capital structure ? Explain the significant factors affecting the capital structure decision of a firm.

5. Daulatpur Dyestuff Industries Ltd. has on its books the following amounts and specific costs of each type of capital :

Types of Capital	Book Value	Market Value	Specific Costs
	Rs.	Rs.	%
Debt	15,00,000	12,50,000	5
Preference Capital	7,50,000	8,75,000	10
Equity Capital	17,50,000	41,25,000	14
Retained Earnings	10,00,000	—	13.2
Total Capital	<u>50,00,000</u>	<u>62,50,000</u>	

Determine the weighted average cost of capital using (a) Book value weights and (b) Market value weights. How are they different ? Can you think of a situation where the weighted average cost of capital would be the same using either of the weights ?

### SECTION—C

**Note** :— Attempt any **TWO** questions carrying **10** marks each.

6. What do you mean by dividend policy ? Explain the Modigliani Miller view about the dividend policy of a firm.
7. What are the objectives of inventory management ? Examine the main issues involved in receivables management.

8. What do you mean by capital budgeting ? Explain the different capital budgeting techniques which can be used by a firm.
9. The Alka Co. Ltd. is considering the purchase of a new machine. Two alternative machines (A and B) have been suggested; each having an initial cost of Rs. 10,00,000 and requiring Rs. 2,00,000 as additional working capital at the end of 1<sup>st</sup> year. Earnings after taxation are expected to be as follows :

Year	Machine A Rs.	Machine B Rs.
1	1,00,000	3,00,000
2	3,00,000	4,00,000
3	4,00,000	5,00,000
4	6,00,000	3,00,000
5	3,00,000	2,00,000

The company has target of return on capital of 10% and on this basis, you are required to compare the profitability of the machines and state which alternative you consider financially preferable.