COURSE CODE (CREDITS):10B11PD411(3)   MAX. MARKS: 35

COURSE NAME: Financial Management

COURSE INSTRUCTORS: Triambica Gautam   MAX. TIME: 2 Hours

Note: All questions are compulsory. Marks are indicated against each question in square brackets.

Q1. What are non conventional projects? Between NPV and IRR which method would you prefer to use for a non conventional project and why?

(CO4) [2+2]

Q2. a) How is CAPM approach to calculation of cost of equity superior to the other methods of calculation?

b) Explain the dividend growth model of calculation of cost of equity. Describe any two limitations of using this method.

(CO3) [2+2]

Q3. A company expects to earn an EBIT of Rs20,00,000 in the coming year. Explain how this EBIT can be used to determine the indifference point and the optimum capital structure for this company.   **(CO3) [4]**

Q4. Calculate the NPV and discounted payback period of the following project. (Discount rate: 10%). Should this project be recommended for investment why/why not?

Year	0	1	2	3	4	5
Cash Flow (Rs.)	-2000	1000	875	500	140	200

(CO4) [2+2+1]

Q5. CM Ltd. is planning an issue of debentures and preference shares simultaneously. The details are as below. Calculate the after tax cost of debt and preference capital if the tax rate is 40%.

	Debenture	Preference Share
Face value	Rs. 100	Rs. 100

Issue Price	Rs. 90	Rs.110
Interest/Dividend	8%	12%
Term	10 years	10 years
Redemption Price	Rs.110	Rs. 100
Flotation Cost	1%	2%

(CO5) [4]

Q6. Solar Fuels Ltd. has three alternative ways of producing solar energy. These alternatives have different composition of costs but same profit. Calculate the operating leverage under all the three cases.

Cost Structure	A	B	C
Sales	Rs. 100 lakh	Rs. 100 lakh	Rs. 100 lakh
Variable cost (as a % age of sales)	70%	60%	50%
Fixed Cost	10 lakh	20 Lakh	30 Lakh

(CO5) [4]

Q7. Answer the following in one or two lines.

a) What is the rule for journal entry for nominal accounts?

b) Why are the two sides of the Balance sheet always equal?

c) Explain one use of the inventory turnover ratio.

d) Calculate the effective interest rate for 12% compounded quarterly.

e) Write briefly about the advantage of preference capital as a source of finance.

(CO2) [2x5=10]