

OCTOBER 2011

P/ID 77607/PBE1H

Time : Three hours

Maximum : 100 marks

PART A — (5 × 6 = 30 marks)

Answer any FIVE questions.

All questions carry equal marks.

1. Discuss the key activities of financial management.
2. What are the basic three financial statements used in an organisation? Explain.
3. Identify the limitations and benefits of cost-volume-profit analysis.
4. What are the cost incurred in the context of inventory management?
5. Enumerate the functions of commercial banks.
6. What are the recommendations made by Dehejia committee?
7. How is the cost of preference calculated?
8. What do you mean by zero based budgeting? State its uses.

PART B — (5 × 10 = 50 marks)

Answer any FIVE questions.

All questions carry equal marks.

9. Compare and contrast the goals of profit maximization of shareholder wealth.
10. Discuss the shortcomings of the percent of sales method of financial forecasting.
11. "Elucidate the term" financial leverage. Does the firm use financial leverage if preferred stock is present in the capital structure?
12. Examine the factors determine the size of the investment a firm makes in accounts receivable.
13. Define and contrast the terms working capital and net working capital.
14. What factors to be considered while determining a firm's cost of capital? Describe.
15. Why is preferred stock referred to as a hybrid security? It is often said to combine the worst features of common stock and bonds. What is meant by this statement?
16. Discuss the components of a master budget.

PART C — (1 × 20 = 20 marks)

Compulsory.

17. Vimal Pvt. Ltd. with operating earnings of Rs. 3,00,000 is attempting to evaluate a number of possible capital structures given below. Which of the capital structure will you recommend and why?

Capital structure	Debt in capital structure Rs.	Cost of debt (k_d) (percent)	Cost of equity (K_e) (percent)
1	3,00,000	10	12
2	4,00,000	10	12.5
3	5,00,000	11	13.5
4	6,00,000	12	15
5	7,00,000	14	18