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Bachelor of Commerce 6th Semester

(2054)

FINANCIAL MANAGEMENT

Paper : BCM–602

Time Allowed : Three Hours] [Maximum Marks : 80

Note :—(1) Attempt any **FOUR** questions from Section A carrying 5 marks each.

(2) Attempt any **TWO** questions from Section B carrying 15 marks each.

SECTION—A

1. Name two techniques of Time value of Money.

2. A new project under consideration requires a Capital outlay of Rs. 600 lacs for which the funds can either be raised by the issue of Equity Shares of Rs. 100 each or by the issue of Equity Shares of the value of Rs. 400 lacs and by issue of 15% Debentures of Rs. 200 lacs. Find out the indifference level of EBIT given the tax rate at 50%.

3. The share of a company is selling at Rs. 40 per share and it had paid a dividend of Rs. 4 per share last year. The investors market expects a growth rate of 5 percent per year.

   (i) Compute the company's Equity Cost of Capital.

   (ii) If the anticipated growth rate is 7 percent per annum, calculate the indicated market price per share.

4. Write a note on significance of Financial Management.

5. Find pay-back period, post pay-back profit and post pay back profitability index.

   Cost of the project Rs. 50,000

   Annual cash inflows for the first three years Rs. 15,000

   Annual cash inflows for the next five years Rs. 5,000, estimated life 8 years, Salvage Rs. 8,000.

6. Prepare an estimate of Working Capital requirement from the following information of trading concern :

   Project Annual Sales 1,00,000 units, Selling Price Rs. 8 per unit, Profit 25% on Sales, Average credit period allowed to customers 8 weeks, Average credit period allowed by creditors 4 weeks, Average stock holding in terms of Sale Management 12 weeks and allow 10% for contingencies.

SECTION—B

7. "Maximization of profits is regarded as the proper objective of investment decision, but it is not as exclusive as maximizing shareholders wealth", comment.

8. What do you understand by finance function ? Discuss objectives and scope of finance function.

9. A firm has the following capital structure and after tax costs of the different sources of funds used :

Sources of funds	Amount (Rs.)	Proportion %	After Tax Cost
Debt	15,00,000	25	5
Preference Share	12,00,000	20	10
Equity Share	18,00,000	30	12
Retained Earnings	15,00,000	25	11
Total	**60,00,000**	**100**	

   You are required to compute the Weighted Average Cost of Capital.

10. Following are the data on a Capital Project M being evaluated by the management of X Ltd. :

Annual cost saving	Rs. 40,000
Useful life	4 years
IRR	15%
P.I.	1.064
NPV	?
Cost of Capital	?
Cost of Project	?
Payback Period	?
Salvage Value	0

Find the missing figures considering the following tables of discount factor only :

Discount factor	15%	14%	13%	12%
1st year	0.869	0.877	0.885	0.893
2nd year	0.756	0.769	0.783	0.797
3rd year	0.658	0.675	0.693	0.712
4th year	0.572	0.592	0.613	0.636
	2.855	**2.913**	**2.974**	**3.038**

SECTION—C

11. A Proforma Cost Sheet of a company provides the following particulars :

RM cost per unit 100, Direct Labour cost per unit 37.50, Overheads cost per unit 75. Profit per unit 37.50 and Selling price per unit 250.

The company keeps Raw Material in stock on average for one month, Work-in-progress on an average for one week and Finished Goods in stock on an average for two weeks.

The credit allowed by creditors is three weeks and company allows four weeks credit to its debtors. The lag in payment of wages is one week and lag in payment of overhead expenses is two weeks. The company sells one-fifth of the output against cash and maintains cash in hand and at bank put together at Rs. 37,500. Prepare a statement showing estimate of Working Capital needed to finance an activity level of 1,30,000 units of production. Assuming that production is carried on throughout the year, wages and overheads accrue similarly and a time period of 4 weeks is equivalent to a month. Work-in-progress stock is 80% complete in all respects.

12. The existing Capital structure of ABC Ltd. is as follows :

Equity Shares of Rs. 100 each	Rs. 40,00,000
Retained Earnings	Rs. 10,00,000
9% Preference Shares	Rs. 25,00,000
7% Debentures	Rs. 25,00,000

The company earns a return of 12% and tax on income is 50%. Company wants to raise Rs. 25,00,000 for its expansion project for which it is considering following alternatives :

(i) Issue of 20,000 Equity Shares at a premium of Rs. 25 per share.

(ii) Issue of 10% Preference Shares.

(iii) Issue of 9% Debentures.

Projected that the P/E ratios in the case of Equity, Preference and Debentures financing would be 20, 17 and 16 respectively. Which alternative would you consider to be best ? Give reasons for your choice.

13. Explain the various factors which influence the dividend decision of a firm.

14. Explain various sources of company finance. Discuss SEBI guidelines for raising company finance.