2023

(May/June)

COMMERCE

(Honours)

(Financial Management)

(BC–402)

(Under Revised Syllabus)

Marks : 75

Time : 3 hours

The figures in the margin indicate full marks for the questions

1. Why is 'wealth maximization' considered to be more appropriate goal of financial decision-making than profit maximization? Justify your answer. 7+8=15

Or

(a) Discuss briefly the scope of financial management. 6

(b) A 12-payment annuity of ₹ 10,000 will begin 8 years hence. The first payment occurs at the end of 8 years. What is the PV of this annuity if the discount rate is 14%? 3

(c) A company purchases a fixed asset for ₹ 4,00,000 by making the down payment of ₹ 1,00,000 and the remaining balance in equal installments of ₹ 1,00,000 for 4 years. What is the rate of interest to the firm? 3

(d) John makes a deposit of ₹ 5,00,000 in a bank for 6 years @ 6·50% interest and the number of compounding is 4 times in a year. Find out the FV of deposit at the end of 6th year. 3

2. (a) What is capital budgeting? Discuss the process of capital budgeting. 3+5=8

(b) The working results of two machines are given below :

	Machine—X	*Machine—Y*
Cost (in ₹)	45,000	45,000
Sales per year (in ₹)	1,00,000	80,000
Total cost per year (excluding depreciation) (in ₹)	36,000	30,000
Expected life	2 years	3 years

Which of the two should be preferred? 7

Or

A company has to select one of the following two projects. Cash inflows are as follows :

Years	:	0	1	2	3	4
Project X (in ₹)	:	11,000	6,000	2,000	1,000	5,000
Project Y (in ₹)	:	10,000	1,000	1,000	2,000	10,000

Calculate the following : 3×5=15

(a) Payback Period

(b) Accounting Rate of Return

(c) Net Present Value @ 10%

(d) Profitability Index @ 15%

(e) Internal Rate of Return

Suggest the best alternative on the above basis.

3. (a) Define cost of capital. Discuss in detail the steps involved in computation of WACC. 2+3=5 *(b)* *X* Ltd. has the following capital structure :

Particulars	*Market Values* ₹	*Book Values* ₹	*Cost* %
Equity Share Capital	80,00,000	1,20,00,000	18
Preference Share Capital	30,00,000	20,00,000	15
Debentures	40,00,000	40,00,000	14

Calculate the Company's Weighted Average Cost of Capital on both market values and book values. Cost of individual sources of capital is net of tax. 5+5=10

Or

(a) Write briefly a note on the arbitrage process. 5

(b) Using imaginary figures, show how value of a firm is determined under NI approach to capital structure. 10

4. *(a)* Explain the different forms of dividends. 5

(b) The following data are available for Ozzy Ltd. :

EPS—₹ 8·00

Rate of return on investment—16%

Rate of return required by shareholders—12%

If Gordon's basic valuation formula holds, what will be the price per share when the dividend payout ratio is *(i)* 25% and *(ii)* 60%? 10

Or

(a) The following figures are collected from the annual report of *XYZ* Ltd. :

Particulars	
Net Profit	₹ 30 lacs
Outstanding 12% Preference Shares	₹ 100 lacs
No. of Equity Shares	3 lacs
Return on Investment	20%
Cost of Capital (K_0)	16%

Compute the approximate dividend payout ratio so as to keep the share price at ₹ 42 by using Walter's model. 10

(b) What are the assumptions and limitations of MM model? 2½+2½=5

5. *(a)* Explain the concept of 'operating cycle' and its usefulness. 5

(b) *XYZ* Company sells goods on a gross profit of 25% depreciation is taken into account as a part of cost production. The following are the annual figures given to you :

	₹
Sales (two months' credit)	18,00,000
Materials consumed (one month credit)	4,50,000
Wages paid (one month lag in payment)	3,60,000
Cash manufacturing expenses (one month lag in payment)	4,80,000
Administration expenses (one month lag in payment)	1,20,000
Sales promotion expenses (paid quarterly in advance)	60,000
Income tax payable in four installments of which one lies in the next year	1,50,000

The company keeps one month's stock of both raw materials and finished goods. It also keeps ₹ 1,00,000 in cash.

You are required to estimate the working capital requirements of the company on cash cost basis assuming 10% safety margin. 10

Or

(a) A company purchases a component of a product @ ₹ 50 per piece. The annual consumption of that component is

25000 pieces. If the ordering cost is ₹ 230 per order and carrying cost is 20% per annum, what would be the EOQ? 4

(b) From the following particulars, prepare a monthly cash budget for the quarter ended 31st March, 2022 (₹ in lakhs) : 11

Months	*Sales*	*Purchases*	*Wages*	*Expenses*
Nov. 2021	5·00	1·00	2·00	0·40
Dec. 2021	6·00	2·00	2·00	0·40
Jan. 2022	4·00	3·00	2·20	0·50
Feb. 2022	5·00	2·00	2·20	0·50
March 2022	6·00	1·00	2·40	0·50

Additional Information :

(i) 10% sales and purchases are on cash

(ii) Credit to debtors one month on an average, 50% of debtor will make payment on the due date while the rest will make payment one month thereafter

(iii) Credit from creditors—2 months

(iv) Expenses are generally paid within the month and lag in payment of wages is $\frac{1}{2}$ month

(v) Plant costing ₹ 1 lakh will be installed in February on payment of 25% of the cost in additions to the installation cost of ₹ 5,000 balance to be paid in three equal instalments from the following months

(vi) Opening cash balance is ₹ 2,00,000

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