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Bachelor of Commerce 6th Semester

1059

FINANCIAL MANAGEMENT

Paper–BCM -602

Time Allowed : Three Hours] **[Maximum Marks : 80**

Note :— (1) From Section A, students are required to attempt any **four** out of **six** questions. Each carries 5 marks.

(2) From Sections B & C, students are required to attempt any **two** questions out of **four** questions from each section . Each carries **15** marks.

SECTION—A

1. What is the importance of Financial Management ? 5

2. An investment company offers to pay Rs. 20,304 at the end of 10 years to investors who deposit annually Rs. 1,000. What interest rate is implicit in the offer ? 5

3. A company issues 10,000, 10% preference shares of Rs. 100 each. Cost of issue is Rs. 2 per share. Calculate cost of preference capital if these shares are issued (a) at par, (b) at a premium of 10%, and (c) at a discount of 5%. 5

4. What is the purpose of setting up SEBI ? 5

5. A firm has sales Rs. 20,00,000, Variable cost of Rs. 14,00,000 and fixed costs of Rs. 4,00,000 and debt of Rs. 10,00,000 at 10% rate of interest. What are the operating, financial and combined

leverages ? If the firm wants to double its Earnings before Interest and Tax (EBIT), how much of a rise in sales would be needed on a percentage basis ? 5

6. A company is expected to pay a dividend of Rs. 6 per share next year. The dividends are expected to grow perpetually at a rate of 9 percent. What is the value of its share if the required rate of return is 15% ? 5

SECTION—B

Note :— Attempt any **two** out of **four** questions.

7. Define Financial Management. Give its scope in detail. Explain various objectives of financial management.

8. Give a comparative evaluation of the various methods that are open to meet the financial requirements of a business.

9. A company is considering an investment proposal to purchase a machine costing Rs. 2,50,000. The machine has a life expectancy of 5 years and no salvage value. The company's tax rate is 40%. The firm uses straight line method for providing depreciation. The estimated cash flows before tax after depreciation (CFBT) from the machine are as follows :—

Year	**CFBT(Rs.)**
1	60,000
2	70,000
3	90,000
4	1,00,000
5	1,50,000

Calculate :—

(a) Payback period;

(b) Average Rate of Return

(c) Net Present Value and Profitability Index at 10% discount rate.

You may use the following table : —

Year	1	2	3	4	5
P.V. Factor @ 10%	0.909	0.826	0.751	0.683	0.621

10. The following is the capital structure of Saras Ltd. as on 31-12-2018 :—

	Rs.
Equity shares–20,000 shares of Rs. 100 each	20,00,000
10% Preference shares of Rs. 100 each	8,00,000
12% Debentures	12,00,000
	40,00,000

The market price of the company's share is Rs. 110 and it is expected that a dividend of Rs. 10 per share would be declared after 1 year. The dividend growth rate is 6%.

(i) If the company is in the 50% tax bracket, compute the weighted average cost of capital.

(ii) Assuming that in order to finance an expansion plan the company intends to borrow a fund of Rs. 20 Lacs bearing 14% rate of interest, what will be the company's revised weighted average cost of capital ?

This financing decision is expected to increase dividend from Rs. 10 to Rs. 12 per share. However, the market price of equity share is expected to decline from Rs. 110 to Rs. 105 per share.

SECTION—C

Note :— Attempt any **two** out of **four** questions.

11. What do you mean by SEBI ? Discuss the powers and functions of SEBI.

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

13. A company's capital structure consists of the following :—

	Rs.
Equity Shares of Rs. 100 each	20 Lakhs
Retained Earnings	10 Lakhs
7% Debentures	8 Lakhs
9% Preference Shares	12 Lakhs
Total	**50 Lakhs**

The company earns 12% on its capital. The income tax rate is 50%. The company requires a sum of Rs. 25 Lakh to finance its expansion programme for which the following alternatives are available to it :—

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

(ii) Issue of 10% preference shares.

(iii) Issue of 8% debentures.

It is estimated that the P/E Ratios in the cases of equity, preference and debenture financing would be 21.4, 17 and 15.7 respectively.

Which of the three financing alternatives would you recommend and why ?

14. A proforma cost sheet of a company provides the following particulars :-

Elements of Cost	
Materials	40%
Direct Labour	20%
Overheads	20%

The following further particulars are available :—

(a) It is proposed to maintain a level of activity of 2,00,000 Units.

(b) Selling Price is Rs. 12/- per unit.

(c) Raw Materials are expected to remain in stores for an average period of one month.

(d) Material will be in process, on average half a month and is assumed to be consisting of 100% raw material, wages and overheads.

(e) Finished goods are required to be in stock for an average period of one month.

(f) Credit allowed to debtors is two months.

(g) Credit allowed by suppliers is one month.

You may assume that sales and production follow a consistent pattern.

You are required to prepare a Statement of Working Capital requirements, a forecast Profit and Loss Account and Balance Sheet of the company assuming that :—

	Rs.
Share Capital	15,00,000
8% Debentures	2,00,000
Fixed Assets	13,00,000

15×2