(i) Printed Pages: 4 Roll No. ....

(ii) Questions : 14

Sub. Code : | 0 | 8 | 3 | 6 |

Exam. Code : | 0 | 0 | 1 | 6 |

Bachelor of Commerce 6th Semester

(2042)

FINANCIAL MANAGEMENT

Paper—BCM-602

Time Allowed : Three Hours] [Maximum Marks : 80

Note :— (1) Attempt any ***four*** questions from Section A, each question from this section will carry **5** marks.

(2) Attempt any ***two*** questions each from Section B and Section C, each question from these Section will carry **15** marks.

SECTION—A (5×4=20)

1. What is capital rationing ?

2. A company offers to pay Rs. 4,007 annually for 5 years if you deposit Rs. 16,000 initially with the company. What interest rate do you earn on the deposit ?

3. A project costs Rs. 25,000 and has a scrap value of Rs. 5,000 after 5 years. The net profits before depreciation and taxes for the five years period expected to be Rs. 5,000, Rs. 6,000, Rs. 7,000, Rs. 8,000 and Rs. 10,000. You are required to calculate the accounting rate of return (on average investment) assuming 50% rate of tax and depreciation on straight line method.

4. A simplified income statement of ABC Ltd. is given below. Calculate and interpret its degree of operating leverage, degree of financial leverage and degree of combined leverage. Income statement of ABC Ltd. for the year ended 31st March 2021 :

	Rs
Sale	10,50,000
Variable cost	7,67,700
Fixed cost	75,000
Earning Before Interest and Taxes (EBIT)	2,08,000
Interest	1,10,000
Taxes (30%)	29,400
Net Income	68,600

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

6. Write a note on Venture Capital.

SECTION—B (15×2=30)

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

8. A company has to make a choice between buying of two machines. Machine A would Cost Rs. 1,00,000 and require cash running expenses of Rs. 32,000 p.a. Machine B would cost Rs. 1,50,000 and its running expenses would amount to R. 20,000 p.a. Both the machines have a life of 10 years with zero salvage value. The company follows straight line depreciation and is subject to 50% tax on its income. The company's required rate of return is 10%. Which machine should it buy ? (Present value of Re. 1 per annum for 10% discount rate is 6.1446.)

9. Z Ltd. is presently financed entirely by equity shares. The current market value is Rs. 6,00,000. A dividend of Rs. 1,20,000 has just been paid. This level is dividend is expected to be paid indefinitely. The company is thinking of investing in a new project involving an outlay of Rs. 5,00,000 now and is expected to generate net cash receipts of Rs. 1,05,000 per annum indefinitely. The project would be financed by issuing Rs. 5,00,000 18% debenture.

Ignoring tax consideration :

(i) Calculate the value of equity shares and gain made by the shareholders if the cost of equity rises to 21.6%

(ii) Prove that the weighted average cost of capital is not affected by gearing.

10. "Capital budgeting is long-term planning for making and financial proposed capital outlays." Explain. What are the limitations of capital budgeting ?

SECTION—C (15×2=30)

11. How is SEBI managed ? Discuss the powers and functions of SEBI.

12. X Company Ltd. is considering three different plans to finance its total project cost of Rs. 100 lakh. These are :

	Plan A (Rs. in lakhs)	Plan B (Rs. in lakhs)	Plan C (Rs. in lakhs)
Equity (Rs. 100 per share)	50	34	25
Debt (8% debentures)	50	66	75
	100	100	100

Sales for the first three years of operations are estimated at Rs. 100 lakhs, Rs. 125 lakhs and Rs. 150 lakhs and a 10% profit before interest and taxes forecast to be achieved. Corporate taxation to be taken at 50%. Compute earning per share in each of the alternative plans of financing for the three years.

13. A company newly commencing business in 2015 has undermentioned projected Profit and Loss A/c :

	Rs.	Rs.
Sales		42,00,000
Cost of goods sold		30,60,000
Gross profit		11,40,000
Administrative expenses	2,80,000	
Selling expenses	2,60,000	5,40,000
Profit before tax		6,00,000
Provision for taxation		2,00,000
Profit after tax		4,00,000

The cost of goods sold has been arrived as :	Rs.
Material used	16,80,000
Wages and manufacturing expenses	12,50,000
Depreciation	4,70,000
	34,00,000
Less stock of finished goods (10% of goods produced not yet sold)	3,40,000
	30,60,000

The figures given above relate only to finished goods and not to work in progress. Goods equal to 15% of the year's production (in terms of physical units) will be in process on average requiring full materials but only 40% of other expenses. The company believes in keeping material equal to two months consumption in stock.

All expenses will be paid one month in arrears; Suppliers of material will extend $1\frac{1}{2}$ month credit; Sale will be 20% for cash and the rest at two month's credit; 90% of the income tax will be paid in advance in quarterly installments. The company wishes to keep Rs. 1,00,000 in cash.

Prepare an estimate of the requirement of (i) working capital (total basis) and (ii) cash cost of working capital.

14. What do you understand by a stable dividend policy ? Why should it be followed ?