

(i) Printed Pages : 4 Roll No.

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Bachelor of Commerce 6th Semester
(2056)

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 and C 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% debenture 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 advantages of financial management.

5. Find pay-back period, post pay-back profit and post pay-back profitability index.
Cost of the project Rs. 100000
Annual cash inflows for the first three years Rs. 30000
Annual cash inflows for the Next Five years Rs. 10000, estimated life 8 years, Residual value Rs. 15000.

6. Prepare an estimate of working capital requirement from the following information of trading concern:
Project annual sales Rs. 13000000, Profit 25% on cost of sales, Average credit period allowed to customers 8 weeks, Average credit period allowed by creditors 4 weeks, Average stock holding in term of sale management 8 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. Zed Limited is presently financed entirely by equity shares. The current market value is Rs. 600000. A dividend of Rs. 120000 has just been paid. This level of dividend is expected to be paid indefinitely. The company is thinking of investing in a new project involving an outlay of Rs. 500000 now and is expected to generate net cash receipts of Rs. 105000 per annum indefinitely. The project would be financed by issuing Rs. 500000 debentures at the market interest rate of 18%. Ignore tax consideration and calculate the value of equity shares and gain made by the shareholders if the cost of equity rises to 21.6% and prove the weighted average cost of capital is not affected by gearing.

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

SECTION-C

11. A Performa cost sheet of a company provides the following particulars:

RM cost Per unit Rs. 45, Direct labour Cost Per unit Rs. 20, Overheads Cost Per unit Rs. 40, Profit Per unit Rs. 15 and Selling Price Per unit Rs. 120.

The company keeps raw material in stock on average for two months, work in progress on an average for 4 weeks, the degree of completion is 50% in all respects and finished goods in stock on an average for one month. Time lag in payment of wages and

overheads is one and half weeks. Time lag in receipts of proceeds from debtors is 2 months. Credit allowed by suppliers is one month. 20% of the output is sold against cash. The company expects to keep cash balance of Rs. 10000. Calculations of debtors may be made at selling price. The company is poised for a manufacture of 14400 units in the year. You are required to prepare a statement showing the working capital requirement of the company.

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

Equity shares of Rs. 100 each	Rs. 4000000
Retained Earnings	Rs. 1000000
9% Preference Shares	Rs. 2500000
7% Debentures	Rs. 2500000

The company earns a return of 12% and tax on income is 50%. Company wants to raise Rs. 2500000 for its expansion project for which it is considering following alternatives:

- (1) Issue of 20000 equity shares at a premium of Rs. 25 per share.
- (2) Issue of 10% preference shares.
- (3) 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.