2025

(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. *(a)* Define Financial Management. Explain the scope of financial management. 2+6=8

(b) A sum deposited at a bank yields ₹1,191 after 4 years @ 6% compounded annually. Find out the present value. 3

(c) A borrower offers 16% rate of interest with quarterly compounding. Determine the effective rate of interest. 4

Or

(a) "A rational human being has a time preference for money." Give reasons. 6

(b) ₹1,080 is receivable at the end of one year and the expected rate of interest a person can earn is 8%.

Find the present value. 3

(c) Ralph makes a deposit of ₹5,00,000 in a bank for 6 years @ 6·50% interest and the number of compoundings is 4 times in a year.

Find out the future value of the deposit at the end of the 6th year. 3

(d) In 2020, George's annual earning was ₹90,000. By 2023, his annual earning has increased to ₹1,20,000.

Compute the compound annual rate of growth of his earning. 3

2. *(a)* What is capital budgeting? Briefly explain the capital budgeting process. 2+6=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 (in years)	2	3

Which of the two should be preferred following *(i)* Payback Period and *(ii)* Accounting Rate of Return? 7

Or

Hep Ltd. has short-listed two projects *A* and *B*. The following further information regarding the two projects are given below :

	(₹ in lakhs)	
Particulars	*A*	*B*
Investment required	100	90
Average annual cash inflows before depreciation and tax	28	24

Salvage value—Nil for both the projects

Estimated life—10 years for both the projects

The company follows straight-line method of charging depreciation

Its tax rate is 50%

You are required to calculate—

(a) payback period;

(b) net present value at 10% discount rate;

(c) internal rate of return of the two projects. 5+5+5=15

The PV of an annuity of ₹1 for 10 years at different discount rates is given below :

Rate %	10	11	12	13	14	15
Annuity value	6·1446	5·8992	5·6502	5·4262	5·2161	5·0188

3. (a) What are the steps involved in the computation of WACC? 3

(b) *X* Ltd. and *Y* Ltd. are in the same risk class and identical in all respects except that *X* Ltd. uses debt while *Y* Ltd. does not. *X* Ltd. has ₹9 lakh debentures carrying 10% rate of interest. Both the companies earn 20% before interest and taxes on their total assets of ₹15 lakh. Assume perfect capital markets, tax rate of 50% and capitalization rate of 15% for an all-equity company.

Compute—

(i) the value of both the companies using Net Income (NI) approach;

(ii) the value of both the companies using Net Operating Income approach. 6+6=12

Or

(a) State the assumptions of NI approach and using imaginary figures, show how to determine the value of firm under NI approach. 2+8=10

(b) *A* Ltd. requires ₹5,00,000 for a construction of a new plant. It has been identified the following three finance options :

(i) Issue of 50000 shares @ ₹10 each

(ii) Issue of 25000 equity shares @ ₹10 each and 2500, 8% debentures of ₹100 each

(iii) Issue of 25000 equity shares @ ₹10 each and 2500, 10% preference shares of ₹100 each

Assuming EBIT after construction would be ₹1,00,000, which financing option would you recommend assuming tax rate of 50%? 5

4. (a) Explain the various factors which influence the dividend decision of a firm. 6

(b) If $K = 11\%$ and earning per share is ₹15, calculate the price per share of Roy Ltd. for $r = 12\%$, 11% and 10% for the following levels of D/P ratios : 9

D/P ratios	*Retention ratios*
10%	90%
30%	70%
50%	50%

Or

(a) Briefly explain the different forms of dividends. 5

(b) The cost of capital and rate of return on investment of Andre's Ltd. are 10% and 15% respectively. The company has 1000000 equity shares of ₹10 each and its EPS is ₹5.

Calculate the value of the firm using Walter's model in the following situations : 10

(i) No retention

(ii) 100% retention

(iii) 70% retention

(iv) 30% retention

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

(b) A company uses annually 50000 units of an item each costing ₹1·20. Each order cost is ₹45 and inventory carrying cost is 15% of the annual average inventory value.

(i) Find EOQ.

(ii) If the company operates 250 days a year, the procurement time is 10 days and safety stock is 500 units, find the re-order level, maximum, minimum and average inventory. 2+8=10

Or

(a) What are the types of cost associated with receivable management? 3

(b) A company sells goods on a gross profit of 25% and 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's 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

Sales promotion expenses (paid quarterly in advance)	60,000
Administration expenses (one month lag in payment)	1,20,000
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. 12

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