2024

(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. What is Financial Management? Discuss the interrelationship between the functions of financial management. 3+12=15

Or

(a) Explain the compounding and discounting concepts of time value of money. 4

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

(c) Mr. Arki makes a deposit of ₹ 5,00,000 in a bank for 6 years at 6·50% interest and the number of compounding is 4 times in a year. Find out the future value of deposit at the end of the 6th year. 4

(d) Calculate the present value of ₹ 10,000 received in perpetuity for an infinite period, assuming 12% discount rate. 3

2. *(a)* Discuss the traditional techniques of capital budgeting evaluation. 8

(b) An equipment costs ₹ 10,00,000 and it is expected to yield a profit after depreciation but before tax is ₹ 1,50,000. Depreciation rate is 10% on straight-line method and corporate tax rate is 50%. Calculate the payback period. 7

Or

(a) What are the steps in the capital budgeting process? 3

(b) A company has an investment opportunity costing ₹ 4,00,000 with the following expected net cash inflows :

Year	*CIFs*
1	70,000
2	70,000
3	70,000
4	70,000
5	70,000
6	80,000
7	1,00,000
8	1,50,000
9	1,00,000
10	40,000

Determine the following : 12

(i) Payback period

(ii) Profitability index at 10% discount rate

(iii) IRR

3. *(a)* Explain the factors affecting WACC. 7

(b) A new project under consideration requires a capital outlay of ₹ 3,00,00,000. Financial Institutions which were approached by the company insists on a 1 : 2 debt-equity ratio. The tax rate is 50%. Equity can be issued at ₹ 100 each and the loan interest is 15%. Advise the company. 8

Or

(a) Briefly explain the determinants of capital structure. 7

(b) A company's expected annual net operating income (EBIT) is ₹ 1,00,000. The company has 5,00,000, 10% debentures. The overall cost of capital is 12·5%. Calculate the value of the firm and cost of equity according to the net operating income approach. 8

4. (a) Critically evaluate the assumptions of Modigliani-Miller model of dividend policies. 6

(b) The following information is available for Peas's Ltd. Earning per share is ₹ 4, rate of return on investment is 18% and rate of return required by shareholders is 15%. What will be the

price per share using Walter model if the payout ratio is—

(i) 40%;

(ii) 50%;

(iii) 60%? 9

Or

(a) Describe the 'birds-in-hand' argument of dividend. 5

(b) Lian Ltd. has an investment of ₹ 5,00,000 in assets and 5000 shares outstanding at ₹ 10 each. It earns a rate of 15% on its investments and has a policy of retaining 50% of the earnings. If the appropriate discount rate is 10%, determine the price of company's share using Gordon's model. What will be the share price if the company has a payout of 80% or retention ratio of 80%? 10

5. (a) State the factors to be considered in determining the requirement of working capital. 5

(b) Music Well Company is contemplating to liberalize its collector effort. Its present sales are ₹ 10 lakhs, its average collection period is 30 days, its expected variable cost to sales ratio is 85%. The company's cost of capital is 10% and tax rate is 40%. The proposed liberalization in collection effort increases sales to ₹ 12 lakhs, increases average collection period by 15 days. Determine the change in net profit. 10

Or

Cost sheet of Andy's Company provides the following particulars :

	Amount per unit (₹)
Raw materials	80
Direct labour	30
Overhead	60
Total cost	170
Profit	30
Selling price	200

The following further particulars are available :

Raw materials in stock, on an average of one month—Materials are in process, on an average of half a month, Finished goods in stock, on an average of one month.

Credit allowed by suppliers is one month—Credit allowed to debtors is two months; average time-lag in

payment of wages is 1½ weeks and is one month in overhead expenses; cash in hand and at bank is expected to be ₹ 3,65,000. You are required to prepare a statement showing the working capital needed to finance a level of activity of 104000 units of production. 15

You may assume that production is carried on evenly throughout the year, and wages and overheads accrue similarly (WIP at 50% completion stage).

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