

4/COM-253 Syllabus-2023

2 0 2 5

(May-June)

FYUP : 4th Semester Examination

COMMERCE

(Financial Management)

(COM-253)

Marks : 75

Time : 3 hours

*The figures in the margin indicate full marks
for the questions*

1. (a) "Financial Management of a business is closely related to other functional area of a business." Comment on the statement.

5

(2)

- (b) M/s. Shine Co. has ₹ 2,00,000 to invest. The following proposals are under consideration. The cost of capital for the company is estimated to be 15% :

Project	Initial Outlay (₹)	Annual Cash Inflow (₹)	Life of project
A	1,00,000	25,000	10
B	70,000	20,000	8
C	30,000	6,000	20
D	50,000	15,000	10
E	50,000	12,000	20

Rank the above projects on the basis of (i) NPV method and (ii) profitability index method.

Present value of annuity of ₹ 1 received in steady stream discounted @ 15% are :

8 years = ₹ 4.6586,

10 years = ₹ 5.1790,

20 years = ₹ 6.3345

10

(3)

Or

- (a) John is depositing ₹ 20,000 annually in a Recurring Bank Account which pays 9% p.a. compounded interest. How much amount John will get at the end of 5th year?

5

- (b) Assuming wealth maximization to be the objective of financial management, show how financing, investing and dividend decisions of a company help attaining this objective.

10

2. Com Pvt. Ltd. sells goods on a gross profit of 25%. Depreciation is taken into account as part of cost of production. The following are the annual figures available :

	(₹)
Sales (two months credit)	18,00,000
Material consumed (one month credit)	4,50,000
Wages (one month lag in payment)	3,60,000

(4)

	(₹)
Cash manufacturing expenses (one month lag in payment)	4,80,000
Administrative expenses (one month lag in payment)	1,20,000
Sales promotion expenses (paid quarterly in advance)	60,000
Income tax payable in 4 installments of which one lies in next year	1,50,000

The company keeps one month's stock for each category of raw material and finished goods. It also keeps ₹1,00,000 in cash. Estimate the working capital requirement of the company on cash basis assuming 15% safety margin. Ignore work-in-progress. 15

Or

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

(5)

- (b) From the following information extracted from the books of a manufacturing concern, compute the operating cycle in number of days : 10

Period covered	365 days
Average period of credit allowed by suppliers	16 days
	(₹ in '000)
Rate of material consumption	4,400
Average of total debtors outstanding	480
Total production cost	10,000
Total cost of sales	10,500
Sales for the year	16,000
Value of average stock maintained :	
Raw material	320
Work-in-progress	350
Finished goods	260

3. What do you mean by optimal capital structure? Explain its determinants. Assuming the existence of the corporate income tax, describe MM theory's position on the issue of an optimum capital structure. 2+5+8=15

Or

- (a) A company issues ₹50,00,000, 10% redeemable debentures at a discount of 5%, the flotation cost is ₹1,50,000. The debentures are redeemable after 5 years at par. Calculate the cost of debts, assuming the tax rate of 50%. 5

(6)

(b) The firm expects a net operating income of ₹1,00,000. It has ₹5,00,000, 6% debentures. The overall capitalization rate is 10%. Calculate the value of the firm and the cost of equity according to Net Operating Income approach.

10

4. Explain the different types of dividend. Discuss the factors that are considered in determining a dividend policy of a firm.

7+8=15

Or

The following are the information in respect of Moon Ltd. :

Earning—₹ 1,00,000

Equity capital—5000 shares of ₹ 10 each

Cost of capital—10%

Expected rate of return (i) 9%, (ii) 10% and (iii) 12%

Using Gordon's model, determine the price per share for the above mentioned alternatives.

15

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(Continued)

(7)

5. Write short notes on any three of the following : 5×3=15

(a) Wealth maximization goal

(b) Time value of money

(c) Ordering cost and carrying cost is equal at EOQ

(d) Bird-in-hand theory

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