

2 0 1 8

(November)

COMMERCE

(Speciality)

Course : 302

(**Financial Management**)

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

(New Course)

Full Marks : 80

Pass Marks : 24

Time : 3 hours

1. (a) Write True or False : 1×4=4
- (i) Retained earnings do not involve any cost.
 - (ii) The main aim of finance function is to maximize profit.
 - (iii) Gross working capital refers to the capital invested in the total assets of an enterprise.
 - (iv) Payment of dividend at the usual rate is termed as regular dividend.

(b) Fill in the blanks : 1×4=4

(i) It is better for a company to remain in _____ gear during the period of depression.

(ii) According to M&M approach, the total value of a firm is _____.

(iii) Corporation finance deals with the _____ form of organization.

(iv) The rate of return on investments _____ with the shortage of working capital.

2. Write short notes on any *four* of the following : 4×4=16

(a) Wealth maximization

(b) Significance of cost of capital

(c) Profitability index method of capital budgeting

(d) Stable dividend policy

(e) Importance of working capital management

3. (a) The responsibility of a finance manager is now regarded as much more than mere procurement of funds. What do you think are the other responsibilities of a finance manager? 14

Or

(b) What do you mean by Finance Function? Discuss about the scope of finance function in a business enterprise. Should the goal of financial decision making be profit maximization or wealth maximization? $4+6+4=14$

4. (a) Define the term 'working capital'. On the formation of a new business, what considerations are taken into account in estimating the amount of working capital needed? $3+11=14$

Or

(b) The following information has been extracted from the cost sheet of a company :

	₹ (Per unit)
Raw materials	40
Direct labour	30
Overheads	35
Total	<u>105</u>
Profits	15
Selling price	<u>120</u>

The following further information is available :

(i) Raw materials are in stock on an average two months

- (ii) The materials are in process on an average for 4 weeks. The degree of completion is 50% in all respects
- (iii) Finished goods are in stock on an average for one month
- (iv) Time lag in payment of wages and overheads is 1½ weeks
- (v) Time lag in respect of proceeds from debtors is 2 months
- (vi) Credit allowed by suppliers is one month
- (vii) 20% of output is sold against cash
- (viii) The company expects to keep a cash balance of ₹ 50,000
- (ix) Take 52 weeks per annum
- (x) Calculation of debtors may be made at selling price
- (xi) The company is planned to manufacture 15000 units in the year

You are required to prepare a statement showing the working capital requirements of the company.

14

5. (a) Define capital structure. Using imaginary figures, show how to determine the value of firm under (i) the net income (NI) approach and (ii) the net operating income (NOI) approach.

4+5+5=14

Or

- (b) A chemical company is considering investment in a project that costs ₹ 5,00,000. The life of the project is 5 years and estimated salvage value is zero. Tax rate is 55%. The company uses straight-line depreciation and proposed project has estimated earnings before depreciation and before tax as follows :

<i>Year</i>	<i>Earning before Depreciation and Tax (₹)</i>
1	1,00,000
2	1,00,000
3	1,50,000
4	1,50,000
5	2,50,000

Determine the following :

- (i) Payback period
- (ii) Average rate of return
- (iii) Net present value at 15%
- (iv) Gross profitability index at 15%

The following are the present value factors at 15% p.a. :

<i>Year</i>	1	2	3	4	5
<i>PV factor</i>	0.870	0.756	0.658	0.572	0.497

6. (a) What is the Modigliani-Miller approach of irrelevance concept of dividends? Under what assumptions do the conclusions hold good? 10+4=14

Or

(b) What do you understand by retained earnings? Discuss the merits and limitations of ploughing back of profit. 4+5+5=14

www.prepnex.com

(Old Course)

Full Marks : 80

Pass Marks : 32

Time : 3 hours

1. (a) Fill in the blanks : 1×4=4

- (i) _____ leverage is also known as 'Trading on Equity'.
- (ii) Payment of dividend involves legal as well as _____ consideration.
- (iii) _____ is the life blood and nerve centre of a business concern.
- (iv) Financial decisions involve investment, financing and _____ decisions.

(b) Write True or False : 1×4=4

- (i) Debentures do not carry any voting right.
- (ii) The value of the firm can be maximized, if the shareholders' wealth is maximized.
- (iii) According to Walter's model, the dividend decision is irrelevant.
- (iv) Corporation finance is a wider term than business finance.

2. Write short notes on any *four* of the following : 4×4=16

- (a) Capital market
- (b) Trading on equity
- (c) Retained earnings
- (d) Dividend payout ratio
- (e) Aims of finance function

3. (a) What do you mean by business finance? What is the scope of finance function in a business enterprise? Should the goal of financial decision making be profit maximization or wealth maximization?

2+4+6=12

Or

(b) Discuss the profit maximization and wealth maximization concept of financial management.

6+6=12

4. (a) Describe the various natures of short-term and long-term requirement of finance in a business and sources from which those can be arranged.

5+6=11

Or

(b) What is 'capital market'? Why is it considered as a prerequisite for the economic development of a country like India? Discuss.

3+8=11

5. (a) What is cost of capital? How are cost of debt and cost of equity capital computed? Write in brief about weighted average cost of capital.

2+3+3+3=11

Or

- (b) (i) Define capital budgeting. State its limitations. 2+3=5

- (ii) The following data are available for ABC Ltd. :

	₹
Selling price per unit	120
Variable cost per unit	70
Fixed cost	2,00,000

- (1) What is the operating leverage, when ABC Ltd. produces and sells 6000 units?

- (2) What is the percentage change that will occur in the EBIT of ABC Ltd., if output increases by 5%? 3+3=6

6. (a) What do you mean by ploughing back of profit? What are the purposes of ploughing back? Discuss different factors that influence the ploughing back of profit. 2+4+5=11

Or .

- (b) Explain the various factors which influence the dividend decision of a firm.

11

7. (a) Define receivable management. Discuss the various dimensions of receivable management. 3+8=11

Or

- (b) The following information has been submitted by a borrower :
- (i) Expected level of production—120000 units
 - (ii) Raw materials to remain in stock on an average—2 months
 - (iii) Processing period for each unit of product (costing of 100% of raw material, wages and overheads)—1 month
 - (iv) Finished goods remain in stock on an average—3 months
 - (v) Credit allowed to the customers from the date of despatch—3 months

(vi) Expected ratios of cost to selling price :

(1) Raw material—60%

(2) Direct wages—10%

(3) Overheads—20%

(vii) Selling price per unit—₹ 10

(viii) Expected margin on sale—10%

You are required to estimate the working capital requirements of the borrower.

11

★ ★ ★