3 SEM TDC FMGT 2 (Sp) (N/O)

2021

(March)

COMMERCE

(Speciality)

Course : 302

(Financial Management)

Time : 3 hours

The figures in the margin indicate full marks for the questions

(New Course)

Full Marks : 80

Pass Marks : 24

1. *(a)* Write True or False : 1×4=4

(i) 'Finance' has been rightly termed as universal lubricant which keeps the enterprise dynamic.

(ii) Gross working capital is the excess of total current assets over current liabilities.

(iii) Pay-back period method measures the true profitability of a project.

(iv) Dividend is the distribution of profit of a company among its share-holders.

(b) Choose the correct answer : $1 \times 4 = 4$

(i) The appropriate objective of an enterprise is

(1) profit maximization

(2) wealth maximization

(3) sales maximization

(4) None of the above

(ii) Working capital of a firm does not include its

(1) cash balance

(2) balance of sundry debtors

(3) inventory

(4) immovable assets (i.e., land, building)

(iii) Financial leverage affects

(1) firm's operating profit

(2) earning per share

(3) Both of the above

(4) None of the above

(iv) Dividend can be paid out of

(1) capital profit

(2) current profit

(3) past profit

(4) None of the above

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

   (a) Financial management process

   (b) Principles of working capital management

   (c) Trading on equity

   (d) Optimal payout ratio

   (e) Profit maximization

3. *(a)* Define financial management. Discuss the objectives of financial management. Why is maximization of wealth a better goal than maximization of profits? 3+7+4=14

Or

   (b) Discuss the functional areas of financial management. Critically analyze the functions of a financial manager in a large-scale industrial establishment. 6+8=14

4. *(a)* Define the term 'working capital'. What factors you have to take into consideration in estimating the working capital needs of a concern? 3+11=14

Or

(b) From the following information, you are required to estimate the net working capital : 14

	Cost per unit (₹)
Raw materials	400
Direct labour	150
Overheads (excluding depreciation)	300
Total cost	850

Additional Information :

Selling price— ₹ 1,000 per unit

Output—52000 units

Raw materials in stock—average 4 weeks

Work-in-progress (assumed 50% completion stage with full material consumption)—average 2 weeks

Finished goods in stock—average 4 weeks

Credit allowed by suppliers—average 4 weeks

Credit allowed to debtors—average 8 weeks

Cash at bank in expected to be ₹ 50,000

25% of purchases are made for cash

Assume that production is sustained at an even pace during the 52 weeks of the year. All sales are on credit basis.

5. *(a)* Explain briefly the following methods of capital budgeting bringing out the advantages and disadvantages of each : 7+7=14

(i) Pay-back period method

(ii) Accounting rate of return method

Or

(b) *(i)* Distinguish between operating leverage and financial leverage. 6

(ii) From the following information, calculate the percentage of change in earnings per share if sales are increased by 5% : 8

	(₹ in Lakhs)
Earning before interest and tax (EBIT)	1,120
Profit before tax (PBT)	320
Fixed cost	700

6. (a) What do you understand by 'retained earnings'? Discuss the merits and limitations of ploughing-back of profits. 4+10=14

Or

(b) Discuss the MM theory of dividend distribution. What are the criticisms of this theory of irrelevance? 8+6=14

(Old Course)

Full Marks : 80
Pass Marks : 32

1. *(a)* Fill in the blanks : 1×4=4

(i) The value of the firm can be maximized, if the shareholders' _____ is maximized.

(ii) The cost of capital is the _____ rate of return expected by its investors.

(iii) Capital investment decisions are generally of _____ nature.

(iv) Working capital is also known as _____ capital.

(b) Write True or False : 1×4=4

(i) Corporation finance deals with the company form of organization.

(ii) The terms 'capital budgeting' and 'capital rationing' carry the same meaning.

(iii) Dividend can be paid out of capital profit.

(iv) New issue market represents the primary market.

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

(a) Profit maximization

(b) Working capital

(c) Trading on equity

(d) Limitations of leasing

(e) Payback period method

3. (a) Define financial management. Discuss its significance in modern era. State the objectives of financial management. 3+5+4=12

Or

(b) "Investment, financing and dividend decisions are all interrelated." Comment. 12

4. (a) What is cost of capital? Discuss its problems in determination of cost of capital. 3+8=11

Or

(b) Following information is taken from the records of a hypothetical company :

Installed capacity—1000 units

Operating capacity—800 units

Selling price per unit— ₹ 10

Variable cost per unit— ₹ 7

Calculate operating leverage from the following situations : 11

Fixed cost	*Amount* (₹)
Situation *A*	800
Situation *B*	1,200
Situation *C*	1,500

5. *(a)* What is capital market? What are the main components of a capital market? Distinguish between capital market and money market. 2+3+6=11

Or

(b) Discuss in detail the sources of long-term finance of a company form of business organization. 11

6. *(a)* What is dividend? Explain the various factors which influence the dividend decision of a firm. 2+9=11

(Turn Over)

Or

(b) What is retained earnings? Discuss the merits and limitations of ploughing-back of profits. 3+4+4=11

7. (a) What do you understand by receivable management? Discuss the factors which influence the size of receivables. 3+8=11

Or

(b) A proforma cost sheet of a company provides the following particulars :

Elements of cost	
Raw materials	40%
Labour	10%
Overheads	30%

The following further particulars are available :

(i) Raw materials are to remain in stores on an average—6 weeks

(ii) Processing time—4 weeks (assume 50% completion stage with full material consumption)

(iii) Finished goods are required to be in stock on an average period—8 weeks

(iv) Credit period allowed to debtors on an average—10 weeks

(v) Lag in payment of wages—2 weeks

(vi) Credit period allowed by creditors—4 weeks

(vii) Selling price — ₹ 50 per unit

You are required to prepare an estimate of working capital requirements adding 10% margin for contingencies for a level of activity of 130000 units of production. 11

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