2013

(November)

COMMERCE

(Speciality)

Course : 302

(Financial Management)

Full Marks : 80
Pass Marks : 32

Time : 3 hours

The figures in the margin indicate full marks for the questions

1. Write 'True' or 'False' : 1×4=4

(a) Wealth maximization is a socialistic approach.

(b) Cash management is an important task of finance manager.

(c) Capital expenditure involves non-flexible short-term commitment of funds.

(d) Financial leverage is also known as 'Trading on Equity'.

2. Choose the appropriate answer from the given alternatives : 1×4=4

(a) Financial decisions involve with

(i) investment, financing and dividend decisions

(ii) investment, financing and sales decisions

(iii) financing, dividend and cash decisions

(b) Factoring is a method of raising

(i) long-term finance

(ii) medium-term finance

(iii) short-term finance

(c) Financial leverage =

(i) $\dfrac{\text{contribution}}{\text{earnings before interest and tax}}$

(ii) $\dfrac{\text{earnings before interest and tax}}{\text{earnings before tax}}$

(iii) $\dfrac{\text{earnings after interest and tax}}{\text{earnings after tax}}$

(d) Debenture securities carry

(i) voting rights and dividend

(ii) interest and voting rights

(iii) interest and dividend

(iv) interest only

3. Write short notes on (any *four*) : 4×4=16

(a) Wealth maximization

(b) Payback period method

(c) Financial leverage

(d) Optimal payout ratio

(e) Management of cash

4. (a) "The finance manager is responsible for shaping the fortunes of the enterprise and is involved in the most vital decision of the allocation of capital." Explain. 11

Or

(b) What is 'financial management'? Discuss its significance in modern era. State the objectives of financial management. 2+5+4=11

5. (a) "Capital budgeting is long-term planning for making and financing proposed capital outlays." Explain. What are the limitations of capital budgeting? 7+5=12

Or

(b) XYZ company has currently an equity share capital of ₹ 40 lakhs consisting of 40000 equity shares of ₹ 100 each. The management is planning to raise another ₹ 30 lakhs to finance a major programme of expansion through one of the four possible financing plans. The options are :

(i) Entirely through equity shares

(ii) ₹ 15 lakhs in equity shares of ₹ 100 each and the balance in 8% debentures

(iii) ₹ 10 lakhs in equity shares of ₹ 100 each and the balance through long-term borrowing at 9% interest p.a.

(iv) ₹ 15 lakhs in equity shares of ₹ 100 each and the balance through preference shares with 5% dividend

The company's expected earning before interest and taxes (EBIT) will be ₹ 15 lakhs. Assuming corporate tax rate of 50%, you are required to determine the EPS and comment on the financial leverage that will be authorised under each of the above scheme of financing. 3+3+3+3=12

6. (a) What do you mean by 'long-term finance'? Explain the importance of debentures as a source of long-term finance. 2+9=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

7. (a) What is the Modigliani-Miller approach of irrelevance concept of dividends? Under what assumptions do the conclusions hold good? 6+5=11

Or

(b) What do you understand by 'retained earnings'? How and in what ways ploughing back of profits can sort out the financial problems of a business unit? 3+8=11

8. (a) What is 'inventory management'? Discuss its objectives. How is 'ABC analysis' useful as a tool of inventory management? 2+4+5=11

Or

(b) From the information given below, you are required to prepare a statement of working capital requirements : 11

		₹
(i)	Issued share capital	2,00,000
	8% Bonds	75,000
	Fixed assets at cost	2,00,000

(ii) The expected ratios of cost to selling price are :

Raw materials	40%
Labour	30%
Overheads	20%
Profit	10%

(iii) Raw materials are kept in store for an average of two months

(iv) Finished goods remain in stock for an average period of one month

(v) Work-in-process (100% complete in regard to materials and 50% for labour and overheads) will approximately be to half a month's production

(vi) Credit allowed to customers is two months and given by suppliers is one month

(vii) Production during the previous year was 40000 units and it is planned to maintain the same in current year also

(viii) Selling price is ₹ 9 per unit

(ix) Calculation of debtors may be made at selling price