2014

(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. *(a)* Write 'True' or 'False' : 1×3=3

(i) The cost of capital is the minimum rate of return expected by its investors.

(ii) Financial leverage is also known as composite leverage.

(iii) Leasing benefits both the lessee as well as the lessor.

(b) Choose the appropriate answer from the given alternatives : 1×2=2

(i) The prime objective of an enterprise is

(1) maximization of sales

(2) maximization of owner's equity

(3) maximization of profit

(ii) Non-members can trade in securities at stock exchanges with the help of

(1) jobbers

(2) brokers

(3) authorised clerk

(c) Fill in the blanks : 1×3=3

(i) Corporation finance is a wider term than —— finance.

(ii) Degree of financial leverage = ——.

(iii) The volume of sales is influenced by —— policy of a firm.

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

(a) Profit maximization

(b) Trading on equity

(c) Sweat equity shares

(d) Dividend payout ratio

(e) Working capital

3. *(a)* Define 'finance function'. Explain its role in a business firm. Discuss some of the crucial financial problems that a decision maker faces today. 2+4+6=12

Or

(b) "Finance function of a business is closely related to its other functions." Discuss. 12

4. *(a)* A company is considering an investment proposal to purchase a machine costing ₹ 2,50,000. The machine has a life expectancy of 5 years and no salvage value. The company's tax rate is 40%. The firm uses straight-line method for providing depreciation. The estimated cash flows before tax after depreciation (CFBT) from the machine are as follows :

Year	*CFBT* (₹)
1	60,000
2	70,000
3	90,000
4	1,00,000
5	1,50,000

Calculate—

(i) payback period;

(ii) average rate of return;

(iii) net present value at 10% discount rate. 3+4+4=11

You may use the following table :

Year	1	2	3	4	5
PV Factor at 10%	0·909	0·826	0·751	0·683	0·621

Or

(b) What is 'financial leverage'? How does it magnify the revenue available for equity shareholders? Discuss the relationships between financial leverage and debt financing. 2+4½+4½=11

5. *(a)* What are the main sources of finance available to industries for meeting long-term financial requirements? Discuss. 11

Or

(b) Comment on accounting policies and disclosures in relation to finance leases and operating leases prescribed in AS-19. 11

6. *(a)* Explain the various factors which influence the dividend decision of a firm. 11

Or

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

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

Or

(b) The Board of Directors, Jonaki Engineering Co. Pvt. Ltd., requests you to prepare a statement showing the working capital requirements for a level of activity of 156000 units of production. The following information are available for your calculations : 11

	Per unit (₹)
Raw materials	90
Direct labour	40
Overheads	75
	205
Profit	60
Selling price	265

(i) Raw materials are in stock on an average one month

(ii) Materials are in process on an average two weeks

(iii) Finished goods are in stock on an average one month

(iv) Credit allowed by suppliers—one month

(v) Credit allowed to debtors—two months

(vi) Lag in payment of wages—1½ weeks

(vii) Lag in payment of overheads—one month

20% of the output is sold against cash. Cash in hand and at bank is expected to be ₹ 60,000. It is to be assumed that production is carried on evenly throughout the year, wages and overheads accrue similarly and a time period of 4 weeks is equivalent to a month.

★ ★ ★