

END TERM EXAMINATION

SIXTH SEMESTER [B.COM(HONS.)] MAY 2019

Paper Code: B.COM-302 Subject: Financial Management

Time: 3 Hours Maximum Marks: 75

Note: Attempt any five questions.

Q1 (a) From the following information prepare a summarised Balance sheet as at 31st March, 2018:

Working Capital.....	Rs. 2,40,000	(10)
Bank Overdraft.....	Rs. 40,000	
Fixed Assets to proprietary ratio.....	0.75	
Reserves and Surplus	Rs. 1,60,000	
Current Ratio.....	2.5	
Liquid Ratio	1.5	

(b) Explain the Dividend Discount Model of valuation of shares with the help of an example under the assumption of single stage growth. (5)

What are the financial decisions which are taken by a finance manager in a company? How these decisions are affected by financial and economic environment of the country. (15)

Q3 (a) Y limited requires Rs. 50,00,000 for a new project. This project is expected to yield EBIT Rs. 10,00,000. While deciding about the financial plan, the company considers the objective of maximising earning per share. It has two alternatives to finance the project by raising debt of Rs. 5,00,000 or Rs. 20,00,000 and balance, in each case, by issuing equity shares. The Y Ltd's share is presently selling at Rs. 300, but is expected to fall to Rs. 250 in case funds are borrowed in excess of Rs. 20,00,000. The funds can be borrowed at the rate of 12% up to Rs. 5,00,000 and at 10% over Rs. 5,00,000. The tax rate applicable to the company is 25%. Which form of financing should the company choose? (10)

(b) Explain the importance of trade credit and accruals as source of short-term finance. Discuss the cost of these sources. (5)

How does capital structure decisions affect the valuation of a company? Explain the NOI Theory of capital structure with the help of an example. How this theory is different from M.M. Theory. (15)

(a) What is the importance of capital budgeting decisions in a firm? (8)

(b) Write short notes on following:- (7)

(i) Financial Leverage

(ii) Operating Leverage

(c) Give reasons for considering risk in Capital Budgeting decisions. How this risk is quantified? Explain. (5)

(d) A company has to make a choice between two projects namely A and B. The initial capital outlay of two projects are Rs. 1,35,00,000 and Rs. 2,40,00,000 respectively for A and B. There will be no scrap value at the end of the life of both the projects. The opportunity cost of capital of the company is 16%. The annual incomes are as under:

P.T.O.

Year	Project A (Rs.)	Project B (Rs.)	Discounting factor @ 16%
1	30,00,000	60,00,000	0.8621
2	1,32,00,000	84,00,000	0.7432
3	84,00,000	96,00,000	0.6407
4	84,00,000	1,02,00,000	0.5523
5	84,00,000	90,00,000	0.4761

You are required to Calculate for each project:

- (i) Discounted payback period
- (ii) Profitability Index
- (iii) Net present value

Following information relating to Bee Ltd. are given:

Particulars:	Rs. 10,00,000
Profit After Tax	50%
Dividend Pay-out Ratio	50,000
Number of Equity shares	10%
Cost of Equity	12%
Rate of Return on Investment	

(a) What would be the market value per share as per Walter's model? (5)

(b) What is the optimum dividend pay-out ratio according to Walter's Model and Market value of equity shares at that pay-out ratio? (10)

(c) Give the reasons as per MM. Approach which consider dividend decisions as irrelevant. (5)

Q8

A newly formed company has applied to the commercial bank for the first time for financing its working capital requirements. The following information is available about the projections for the current year: Estimated level of activity: 1,04,000 completed units of production plus 4,000 units of work-in-progress. Based on the above activity, estimated cost per unit is:

Raw material	Rs. 80 per unit
Direct wages	Rs. 30 per unit
Overheads (exclusive of depreciation)	Rs. 60 per unit
Total cost	Rs. 170 per unit
Selling price	Rs. 200 per unit
Raw materials in stock: Average 4 weeks consumption, work-in-progress (assume 50% completion stage in respect of conversion cost) (materials issued at the start of the processing).	8000 units
Finished goods in stock	Average 4 weeks
Credit allowed by suppliers	Average 8 weeks
Credit allowed to debtors/receivables	Average 1 1/2 weeks
Lag in payment of wages	

Cash at banks (for smooth operation) is expected to be Rs. 25,000. Assume that production is carried on evenly throughout the year (52 weeks) and wages and overheads accrue similarly. All sales are on credit basis only.

- (a) Net Working Capital required;
- (b) Maximum Permissible Bank finance under first and second methods of financing as per Tandon Committee Norms. (15)

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