

2020

FINANCIAL MANAGEMENT — HONOURS

Eighth Paper

(A-34-A)

[Accounting and Finance Group]

Full Marks : 100

*The figures in the margin indicate full marks.**Candidates are required to give their answers in their own words as far as practicable.*

Group - A

Answer *any four* questions 10×4

1. Discuss the various functions of financial management. 10
2. Specify the limitations of 'Maximisation of Profit' as the objective of the firm. 10

Or,

Explain the role of Chief Financial Officer (CFO) in the modern business environment. 10

3. Mr. X intends to deposit ₹ 30,000 at the beginning of each year for 10 consecutive years in a bank. The deposit yields interest @ 8% compounded annually. How much will he receive at the end of the period? 10

Or,

What is time value of money? Explain in brief its relevance in financial decision making. 6+4

4. Calculate present value of a 5 year annuity of ₹ 10,000 at a discount rate 10%. 10
5. Write a short note on discounted cash flow technique of Capital Budgeting. 10

Or,

Calculate payback period of a project from the following information :

Particulars	Amount (₹)
Initial Investment	1,00,000
Estimated annual profit :	
1st Year	10,000
2nd Year	15,000
3rd Year	30,000
4th Year	25,000
5th Year	15,000

Assume straight line method of depreciation. Ignore tax.

10

Please Turn Over

6. The cost of plant is ₹ 6,00,000 with working capital requirement of ₹ 1,00,000. The expected life of the plant is 3 years and scrap value is likely to be 10%. It is expected to yield annual profit of ₹ 56,000, ₹ 70,000, ₹ 48,000 over this period. Compute the accounting rate of return assuming 30% tax and straight line method of depreciation. 10

Group - B

Answer *any two* questions

30×2

7. From the following information presented by a manufacturing company, prepare a statement showing working capital requirement for 2020-2021:

Expected monthly sales of 50,000 units at ₹ 30 per unit. The analysis of selling price per unit is as follows :

Raw material cost	₹ 12
Wages	₹ 9
Overhead	₹ 4
Profit	₹ 5

Raw material will remain in store for 1 week.

Processing period is 2 weeks. Credit period allowed to debtors is 4 weeks. Credit period allowed by creditors is 3 weeks. Lag in payment of wages and overhead is 2 weeks.

Assume that production is carried on evenly throughout the year and wages and overhead accrue evenly. 30

8. (a) What are the various sources of finance to meet working capital requirement?
(b) Write a short note on inventory management. 15+15
9. A company is considering two mutually exclusive projects. Following are the information regarding the two. The estimated life of both the machine is five years with no salvage value.

Cost (₹)		Anticipated cash flows after tax per year (₹)				
		Yr.1	Yr.2	Yr.3	Yr.4	Yr.5
Project X	70,000	10,000	20,000	30,000	45,000	60,000
Project Y	70,000	50,000	40,000	20,000	10,000	10,000

The company's cost of capital is 10%. Which of the above projects may be selected based on method of project appraisal?

The present value of Re.1 to be received at the end of each year at 10% is given below :

Year	1	2	3	4	5
P.V. (₹)	0.909	0.826	0.751	0.683	0.621

30

Or,

- (a) Discuss the significance of capital budgeting.
(b) Explain the salient features of 'IRR' as a method of project evaluation and examine its rationality. 15+15

10. Relevant information about three companies are given below :

	X	Y	Z
Annual production capacity (Units)	1,00,000	1,50,000	2,50,000
Capacity utilisation and sales	75%	75%	75%
Unit selling price (₹)	40	50	50
Unit variable cost (₹)	15	15	20
Fixed cost for the year	2,00,000	3,00,000	5,00,000
Equity capital (₹ 10 per share)	5,00,000	7,00,000	10,00,000
10% Preference share capital (₹)	–	50,000	1,00,000
15% Debentures (₹)	1,00,000	2,00,000	3,00,000

Determine the degree of Operating Leverage, degree of Financial Leverage and degree of Combined Leverage of three companies. 30

Or,

- (a) What do you mean by optimum capital structure? Mention its three important features.
 (b) Discuss the factors to be considered for determining optimum capital structure of a firm. 15+15

11. A company has following amounts of capital with corresponding specific cost of each type :

Type of capital	Book Value (₹ in lakhs)	After-tax Cost of capital (%)
Equity capital (₹ 10 per share)	2,50,000	16
Retained earning	50,000	?
Debentures	1,50,000	7

The current market price of each share is ₹ 80 and the corporate tax rate is 40%.

You are required to compute weighted average cost of capital using book values and market value as weight. 30

12. You are given the following information in respect of ABC Ltd.

Earning	₹ 1,00,000
Equity capital	5,000 shares of ₹ 10 each
Cost of capital	10%
Expected rates of return	(i) 9% (ii) 10% and (iii) 12%

Assuming that dividend pay-out ratios are 0%, 50% and 100% respectively, determine the effects of the different dividend policies on the share price of ABC Ltd. for the above mentioned three alternative levels of rate of return using Gordons's model. 30

Please Turn Over

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(4)

Or,

- (a) What are the determinants of the dividend policy of a corporate enterprise?
(b) Discuss 'Dividend irrelevance theorem' of Modigliani and Miller. 15+15
- 13.** (a) What are the basic objectives of financial control in any business enterprise?
(b) Discuss briefly two important tools of financial control. 15+15
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