2015

(1st Semester)

COMMERCE

(Honours)

Paper No. : BCAF–01

(Financial Management)

Full Marks : 70

Pass Marks : 45%

Time : 3 hours

The figures in the margin indicate full marks for the questions

Answer **all** questions

1. *(a)* Define Financial Management. Discuss the goals and objectives of Financial Management. 2+12=14

Or

(b) What is Capital Budgeting? For each of the following, compute—

(i) payback period;

(ii) part payback profitability;

(iii) post-payback profitability index : 5+9=14

Project—1 :

Investment—₹ 1,00,000

Annual cash inflow

First 3 years—₹ 25,000

Next 5 years—₹ 10,000

Estimated life of the project—8 years

Project—2 :

Investment—₹ 1,00,000

Annual cash inflow—₹ 20,000

Estimated life of the project—8 years

2. *(a)* What is meant by cost of capital? Explain the problems in determination of cost of capital. 2+12=14

Or

(b) Define weighted average cost of capital. Explain the rational behind the use of weighted average cost of capital. 4+10=14

3. *(a)* Distinguish between Operating leverage and Financial leverage. Discuss the relation between debt financing and financial leverage. 8+6=14

Or

(b) A firm is considering two financial plans with a view to examine their impacts on Earnings Per Share (EPS). The total funds required for investment in assets are ₹ 2,50,000 :

Financial Plans	*Plan–I*	*Plan–II*
Debt (interest @ 10% p.a.)	2,00,000	50,000
Equity Share (₹ 10 each)	50,000	2,00,000
Total financial required	2,50,000	2,50,000
No. of equity shares	10,000	40,000

The earning before interest and tax are assumed as ₹ 25,000, ₹ 50,000 and ₹ 1,00,000. The rate of tax be taken at 50%. Comment. 14

4. *(a)* Define capital structure. What are the major determinants of capital structure? 4+10=14

Or

(b) Compute the market value of the firm, value of shares and the average cost of capital from the following information : 14

Net operating income—₹ 2,00,000

Total investment—₹ 10,00,000

Equity capitalization rate :

(1) If the firm uses no debt—10%

(2) If the firm uses ₹ 4,00,000 debenture—11%

(3) If the firm uses ₹ 6,00,000 debenture—13%

Assume that ₹ 4,00,000 debenture can be raised at 5% rate of interest whereas ₹ 6,00,000 debenture can be raised at 6% rate of interest.

5. *(a)* What is inventory management? What are the tools and techniques of inventory management? 4+10=14

Or

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

Particulars	*Amount per unit* ₹
Raw Material	80
Direct Labour	30
Overheads	60
Total Cost	170
Profit	30
Selling Price	200

The following further particulars are available :

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

(ii) Work-in-progress on an average for half a month

(iii) Finished goods are in stock on an average for 1 month

(iv) Credit allowed to customers is two months

(v) Credit allowed by suppliers is one month

(vi) Lag in payment of wages is $1\frac{1}{2}$ weeks

(vii) Lag in payment of overhead expenses is one month

(viii) $\frac{1}{4}$th of the output is sold against cash

(ix) Cash in hand and at bank is expected to be ₹ 25,000

You are required to prepare a statement showing the working capital needed to finance a level of activity of 104000 units of production.

You may assume 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. 14

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