

2017

(1st Semester)

COMMERCE

(Honours)

Paper No. : BCAF-01/BCM-01

(**Financial Management**)

Full Marks : 70

Pass Marks : 45%

Time : 3 hours

*The figures in the margin indicate full marks
for the questions*

1. (a) What is Financial Management? Explain Profit vs. Wealth maximization. 2+12=14

Or

- (b) What is capital budgeting? 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 (CFBT) after depreciation 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) profitability index;
 (iii) net present value @ 10% discount rate. 2+12=14

The PV factors @ 10% discount rate are as follows :

Year	
1	.909
2	.826
3	.751
4	.683
5	.621

2. (a) What is cost of capital? What is its significance? Also explain the problems in determination of cost of capital. 3+6+5=14

Or

- (b) How is cost of debt computed? A company issues ₹ 10,00,000, 10% redeemable debentures at a discount of 5%. The costs of floatation amount

to ₹ 30,000. The debentures are redeemable after 5 years. Calculate before-tax and after-tax cost of debt assuming a tax rate of 50%. $4+10=14$

3. (a) What is leverage? Explain financial and operating leverages in detail along with their advantages and disadvantages. $4+10=14$

Or

- (b) A company's capital structure consists of ₹ 10,00,000 (shares of ₹ 100 each) equity capital and ₹ 4,00,000, 10% debentures. The sales increased by 20% from 100000 units to 120000 units; the selling price is ₹ 20 per unit; variable cost amount to ₹ 12 per unit and fixed expenses amount to ₹ 2,00,000. The rate of income tax is assumed to be 50%. You are required to calculate—

- (i) the percentage increase in earnings per share;
- (ii) the degree of financial leverage at 100000 units and 120000 units;
- (iii) the degree of operating leverage at 100000 units and 120000 units.

$4+5+5=14$

4. (a) Explain the factors determining the capital structure of a company. 14

Or

- (b) Discuss the various forms of dividends. What are the assumptions and criticism of MM hypothesis under dividend policies? 6+8=14

5. (a) Explain the concept of working capital. Describe the need and determinants of working capital in a business. 4+10=14

Or

- (b) From the following data, compute the duration of the operating cycle for each of the two companies : 7+7=14

	Company—A (₹)	Company—B (₹)
Stock :		
Raw materials	20,000	27,000
Work-in-progress	14,000	18,000
Finished goods	21,000	24,000
Purchase/Consumption of raw material	96,000	1,35,000
Cost of goods produced/ sold	1,40,000	1,80,000
Sales	1,60,000	2,00,000
Debtors	32,000	50,000
Creditors	16,000	18,000

Assuming 360 days per year for computational purposes.
