

**2018****( 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) Discuss the scope and objectives of financial management. Outline the functional areas of financial management. 4+4+6=14

*Or*

- (b) What is the need of capital budgeting? Calculate the net present value of the two projects and suggest which of the two projects should be accepted assuming a discount rate of 10% from the following information : 4+10

|                    | <i>Project—X</i> | <i>Project—Y</i> |
|--------------------|------------------|------------------|
| Initial Investment | ₹ 80,000         | ₹ 1,20,000       |
| Estimated Life     | 5 years          | 5 years          |
| Scrap Value        | ₹ 4,000          | ₹ 8,000          |

The profits before depreciation and after taxes (cash flows) are as follows :

|           | Year—1 | Year—2 | Year—3 | Year—4 | Year—5 |
|-----------|--------|--------|--------|--------|--------|
|           | (₹)    | (₹)    | (₹)    | (₹)    | (₹)    |
| Project X | 20,000 | 40,000 | 40,000 | 12,000 | 8,000  |
| Project Y | 80,000 | 40,000 | 20,000 | 12,000 | 8,000  |

2. (a) What is weighted average cost of capital? A firm has the following capital structure and after-tax costs for the different sources of fund used :

| Sources of Fund : | Amount (₹)         | Proportion | After-tax cost (%) |
|-------------------|--------------------|------------|--------------------|
| Debt              | 30,00,000          | 25         | 5                  |
| Preference Shares | 24,00,000          | 20         | 10                 |
| Equity Shares     | 36,00,000          | 30         | 12                 |
| Retained Earnings | 30,00,000          | 25         | 11                 |
| Total             | <u>1,20,00,000</u> | <u>100</u> |                    |

You are required to compute the weighted average cost of capital.  $4+10=14$

Or

- (b) What is the cost of retained earnings? What are the different approaches for computing the cost of equity?  $4+10=14$

3. (a) Define financial leverage. Explain the significance and limitation of financial leverage.

$2+6+6=14$

Or

(b) Aman Ltd. has currently an equity share capital of ₹ 40 lakhs consisting of 40000 equity shares of ₹ 100 each. The management is planning to raise another ₹ 30 lakhs to finance a major programme of expansion through one of the four possible financing plans. The options are :

- (i) Entirely through equity shares
- (ii) ₹ 10 lakhs in equity shares of ₹ 100 each and the balance through long-term borrowing at 9% interest p.a.
- (iii) ₹ 15 lakhs in equity shares of ₹ 100 each and the balance in 8% debentures
- (iv) ₹ 15 lakhs in equity shares and the balance through preference shares with 5% dividend

The company's expected earning before interest and taxes (EBIT) will be ₹ 15 lakhs. Assuming corporate tax rate of 50%, you are required to determine the EPS and comment on the financial leverage that will be authorised under each of the schemes of financing.

4. (a) Define capital structure. What should generally be the features of an appropriate capital structure? State the importance of capital structure. 2+6+6=14

Or

- (b) What do you understand by a stable dividend policy? Explain the factors that influence the dividend policy of a firm. 2+12=14

5. (a) Define the gross and net working capital. What is the importance of working capital in a business? What are the advantages of adequate working capital? 4+5+5=14

Or

- (b) Estimate the net working capital from the following information :

|                                   | <i>Cost per<br/>unit ( ₹ )</i> |
|-----------------------------------|--------------------------------|
| Raw Material                      | 400                            |
| Direct Labour                     | 150                            |
| Overhead (excluding depreciation) | 300                            |
| Total cost                        | <u>850</u>                     |

*Additional Information :*

Selling price—₹ 1,000 per unit

Output—52000 units per annum

Raw material in stock—average 2 weeks

Work-in-progress :

(assume 50% completion stage with

full material consumption)—average 2 weeks

Finished goods in stock—average 4 weeks

Credit allowed by suppliers—average 4 weeks

Credit allowed by debtors—average 8 weeks

Cash at bank is expected to be—₹ 50,000

Assume that production is sustained at an even pace during the 52 weeks of the year. All sales are on credit basis. State any other assumption that you might have made while computing.

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