PG Even Semester (CBCS) Exam., May—2019

COMMERCE

(2nd Semester)

Course No. : COMCC–201

(Financial Management)

Full Marks : 70
Pass Marks : 28

Time : 3 hours

The figures in the margin indicate full marks for the questions

Answer **five** questions, taking **one** from each Unit

UNIT—I

1. Define Financial Management. Discuss the nature and scope of Financial Management. 4+10=14

2. Why is it inappropriate to seek profit maximization as the goal of financial decision-making? How would you justify the adoption of present value maximization as a substitute for profit maximization? 7+7=14

UNIT—II

3. *(a)* Enumerate briefly the major steps involved in capital budgeting. 9

(b) Under what circumstances, do NPV and IRR differ? 5

4. *(a)* A company has an investment opportunity costing ₹ 1,20,000 with the following expected net cash flows after taxes and before depreciation :

Year	1	2	3	4	5
Net cash flow (₹)	21,000	21,000	21,000	21,000	21,000

Year	6	7	8	9	10
Net cash flow (₹)	24,000	30,000	45,000	30,000	12,000

Using 10% as the cost of capital, determine the following : 10

(i) Payback period

(ii) Net present value at 10% discount factor

(iii) Profitability index at 10% discount factor

(iv) Internal rate of return with the help of 10% and 15% discount factor

Discount factors :

Year	*10%*	*15%*
1	0·909	0·870
2	0·826	0·756
3	0·751	0·658

Year	*10%*	*15%*
4	0·683	0·572
5	0·621	0·497
6	0·564	0·432
7	0·513	0·376
8	0·467	0·327
9	0·424	0·284
10	0·386	0·247

(b) State four limitations of NPV method. 4

UNIT—III

5. Discuss the factors determining capital structure of a company. What is optimal capital structure? 11+3=14

6. *(a)* Define trading on equity. 4

(b) A firm has sales of ₹ 20,00,000, variable cost of ₹ 14,00,000 and fixed costs of ₹ 4,00,000 and debt of ₹ 10,00,000 at 10% rate of interest. What are the operating, financial and combined leverages? If the firm wants to double its Earning before Interest and Tax (EBIT), how much of a rise in sales would be needed on a percentage basis? 10

UNIT—IV

7. Critically analyze the Walter's model of dividend policy with illustration. 14

8. What is mutual fund? Enumerate the reasons for slow growth of mutual fund industry in India. 4+10=14

UNIT—V

9. What are the reasons for holding cash balance? Explain Baumol's model of cash management. 5+9=14

10. A proforma cost sheet of a company provides the following particulars :

	Amount per unit (₹)
Elements of cost :	
Raw materials	80
Direct labour	30
Overheads	60
Total cost	170
Profit	30
Selling price	200

The following further particulars are available :

Raw materials are in stock on an average for one month

Materials are in process on an average for half a month

Finished goods are in stock on an average for one month

Credit allowed by suppliers is one month

Credit allowed to customers is two months

Lag in payment of wages is 1½ weeks

Lag in payment of overhead expenses is one month

One-fourth of the output is sold against cash

Cash in hand is expected to be ₹ 25,000

You are required to prepare a statement showing working capital needed to finance a level of activity of 52000 units of production. Assume 1 month is equal to 4 weeks. 14

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