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Bachelor of Commerce 6th Semester

(2053)

FINANCIAL MANAGEMENT

Paper : BCM-602

Time Allowed : Three Hours] [Maximum Marks : 80

UNIT—I

1. Attempt any **FOUR** of the following :—

(A) What are the qualities of a good financial management ?

(B) At the time of retirement Mr. Goyal has given a choice between two alternatives :

(i) Annual pension till death

(ii) Lump sum payment of Rs. 60,000.

If Mr. Goyal expects to live for 15 years and rate of return is 15% which alternative should be selected ?

(C) A company is planning to purchase a plant costing Rs. 10,00,000. The life of plant is expected to be 5 years and during this tenure it is expected to generate profit after depreciation before tax as follows :

Years	1	2	3	4	5
Rs.	4,00,000	3,00,000	3,00,000	2,00,000	2,00,000

Calculate the pay back period if tax rate is 40% and depreciation is charged on straight line method.

(D) Explain fully hedges bonds.

(E) Jalandhar Sports Limited expect the cost of goods sold for 2023 to be Rs. 272 crores, the operating cycle for the planned year to be 54 days. If Company wants to maintain a desired cash balance of Rs. 3 crores, what is the expected working capital requirement for the year 2023 ? (Assume 360 days in a year).

(F) If the selling price per unit is Rs. 240, variable cost is Rs. 140 and the fixed cost is Rs. 2,00,000 what is the operating leverage when company produces and sell 12000 units ? 4×5

UNIT—II

(Answer any **TWO** questions.)

2. "The modern approach to corporate finance is an improvement over the traditional approach". Comment.

3. Determine the net present value from the following data of two machines X and Y and suggest which machine should be accepted :

	Machine X	**Machine Y**
Cost of Machine	Rs. 3,00,000	Rs. 4,00,000
Life of Machine	5 years	5 years
Salvage Value	Rs. 20,000	Rs. 30,000

Net profit after depreciation and tax :

Years	**Machine X (Rs.)**	**Machine Y (Rs.)**
1	50,000	50,000
2	80,000	40,000
3	90,000	60,000
4	20,000	80,000
5	50,000	60,000

Depreciation has been charged on straight line basis and the discounting rate is assumed at 10%.

4. Explain the concept of time value of money with suitable examples.

5. The capital structure of Madras Ltd. as on 31st March 2022 is as follows :

Equity share capital 100 lakh Equity Shares @ Rs. 10	Rs. 10 crore
Reserves	Rs. 2 crore
14% Debentures of Rs. 100 each	Rs. 3 crore

For the year ended 31st march 2022, company paid dividend at 20% the growth rate of company is 5% every year. Market price of equity share is Rs. 80/share; income tax rate is 50%. You are required to :

Calculate weighted average cost of capital.

Company has plan to raise a further Rs. 5 crore by way of long term loan at 16% rate of interest if it do so the market price of share will fall to Rs. 50 per share. What will be new weighted average cost of capital if company implements its plan ? 2×15

UNIT—III

(Answer any **TWO** questions.)

6. Write a note on the following :—
   (a) Debt Securitization
   (b) ADR
   (c) Bridge Finance.

7. Explain the theory of Trading on Equity.

8. A company has provided the following information :

	Rs./unit
Sales (two month credit)	50
Raw Material	20
Wages	5
Overhead	15
Profit	10

Additional Information :—

Raw material in stock average 2 months consumption. Work in progress (completion stage : 100% with regards to material, 50% for labour and overheads) on an average half a month. Finished goods in stock on an average one month. Credit allowed by suppliers is one month. Credit allowed to debtors two month. Cash in hand as desired at Rs. 25,000. All sales are on credit basis. Prepare a statement showing working capital needed to finance an activity level of 3,00,000 units of production. Assume that producton is carried evenly throughout the year and wages and overheads accrue similarly. Four weeks is equal to one month and 52 weeks is equal to one year.

9. Costal Chemicals belongs to a risk class of which the appropriate capitalization rate is 10%. It currently has 1,00,000 shares selling at Rs. 100 each. The firm is contemplating declaration of a dividend of Rs. 6 per share at the end of the current fiscal year which has just begun.

Answer the following questions based on Modigliani and Millar model and assumption of no taxes.

(1) What will be the price of shares at the end of the year if a dividend is not declared ?

(2) What will be the price if dividend is declared ?

(3) Assume that the firm pays a dividend has net income of Rs. 10 lakhs and makes new investments of Rs. 20 lakhs during the period. How many new shares must be issued ?

2×15