Exam.Code:1306
Sub. Code: 9228

2072

B. Voc. (Retail Management) Sixth Semester
RSC-603: Financial Management for Retail

Time allowed: 3 Hours

Max. Marks: 80

NOTE: *Attempt five questions in all, including Question No. 1 which is compulsory and selecting one question from each Unit.*

x-x-x

I. Attempt any four of the following:-

a. What are the objectives of financial management?
b. What is time value of money?
c. What is net terminal method of capital budgeting.
d. What is stable dividend policy?
e. A firm has sales of rupees 12,00,000 variable cost of 6,00,000 & fixed cost 200,000 & debt of 500,000 at 10% rate of interest. What are the operating, financial & composite leverage?
f. A company raised loan of Rs. 2,50,000 by 10% debentures issued at 10% discount for a period of ten years, underwriting costs are 3% and tax rate is 50%. Calculate cost of debt after tax.

(4x4)

UNIT - I

II. What is financial management? Explain the need and scope of financial management. (16)

III. What is time value of money? Explain the techniques of time value of money. (16)

UNIT - II

IV. ABC Corporation has the following book value capital structure:

Particulars	Amount in Rupees
Equity Capital at FV Rs. 10 per share	10,00,000
Preference Capital (Rs.100 per share)	5,00,000
Debentures (Rs. 100 per share)	5,00,000
Total	20,00,000

The market prices of the securities are

Debentures Rs. 105 per debenture

Equity Shares Rs. 24 each

Prefence Shares Rs. 110 per share

Additional Information:

a. Rs. 100 debenture redeemable at par, 10% coupon rate, 4% floatation cost and 10 years maturity
b. Rs. 100 preference share redeemable at par, 5% coupon rate, 2% floatation cost and 10 years maturity
c. Equity share has Rs 4 floatation cost and expected dividend Rs 1 with growth rate of 5%.
d. Corporate tax rate applicable is 50%

Calculate weighted average cost of capital on the basis of book value weights and market value weights.

(16)

P.T.O.

V.

K Company is considering two new machines that should produce considerable cost savings in its assembly operations. The cost of each machine is Rs.1,40,000 and neither is expected to have a salvage value at the end of a 4-year useful life. K Company's required rate of return is 12% and the company prefers that a project return its initial outlay within the first half of the project's life. The annual after-tax cash savings for each machine are provided in the following table:

Year	Machine A	Machine B
1	50000	80000
2	50000	60000
3	50000	40000
4	50000	20000

Required:

a. Compute the payback period for each machine
b. Compute the net present value for each machine.
c. Which machine should be purchased?

(16)

UNIT - III

VI. What factors affect the capital structure decision of the firm? Explain the Net Operating Income Approach. (16)

VII.

XY Ltd. needs Rs. 50,00,000 for the installation of a new factory. The new factory is expected to yield annual Earnings Before Interest and Tax (EBIT) of Rs.10,00,000. In coosing a financial plan, XY Ltd. has an objective of maximising earnings per share. It is considering the possibilities of issuing ordinary shares and raising debt of Rs.5,00,000 or Rs. 20,00,000 or Rs. 30,00,000. The current market price per share is Rs.300 and is expected to drop to Rs.250 if the funds are borrowed in excess ofRs. 20,00,000. Funds can be raised at the following rates. :

- Upto Rs.5,00,000 at 10%
- Over Rs. 5,00,000 to Rs. 20,00,000 at 15%
- Over Rs. 20,00,000 at 20% Assuming a tax rate of 50%, advise the company. (16)

UNIT - IV

VIII. What is working capital management? Explain the factors affecting the estimation of working capital requirements. (16)

IX. Explain the relevance and irrelevance theories of dividend decision. (16)

x-x-x