

Rishi Bankim Chandra Evening College

M. Com. 2nd Semester Examination-2023

Sub: Financial Management (COMPCOR08T)

Full Marks: 40

Time: 2 Hrs.

Group-A

Answer any five questions:

(5x2=10)

1. What are the objectives of Cash Management?
2. What is time value of money?
3. What is the significance of Time Value of Money?
4. What do you mean by Financial Leverage?
5. Explain the significance of negative working Capital.
6. What is maturity value of an annuity of Rs. 5000 at 6% C.I. payable after 10 years?
7. State the significance of Capital Budgeting.
8. What is explicit Cost of Capital?

Group-B

Answer any two questions, taking at least one from each section:

(2x5=10)

Section-I

9. The shares of XYZ Ltd. are selling at Rs. 50 per share. The firm had paid dividend @ 5 per share last year. The estimated growth rate of the company is approximately 5% per year.
- a) Determine the cost of equity capital of the company.
 - b) Determine the estimated market price of the equity share, if the anticipated growth rate of the firm rise to 8%. (5)

10. Z Ltd. provides you the following information:

Revenue and operating Cost details: Sales 3,000 units @ ₹600 per unit, variable operating cost ₹350 per unit, fixed operating cost ₹3,20,000, Tax rate @ 30 %.
Capital structure: 12% Debentures ₹2,00,000, 9% Preference share capital ₹3,00,000 and 4000 equity shares of Rs. ₹100 each.

Calculate DOL, DFL and DCL of the company.

(5)

Section-II

11. Work out the weighted average cost of capital from the following data: (5)

Sources of capital	Amount (₹in lakh)	Before tax cost
Equity share capital	6000	15%
Preference share capital	1000	10%
Debenture	4,000	12%
Retained earning	1000	15%

12. What are the different components of working capital? Explain briefly. (5)

Group-C

Answer any two questions, taking at least one from each section: (2x10=20)

Section-I

13. A company has the choice of issuing 10% debentures or ₹100 equity shares to raise ₹20 lakh to meet its long-term investment requirements. Its current capital structure consists of 20000 ordinary shares of ₹ 100 each, 8% debentures of ₹1000000 and 12% preference shares of ₹1000000.

Determine the level of EBIT at which EPS would be the same, whether the new funds are acquired by issuing ordinary shares or by issuing 10% debentures. Tax rate is assumed to be 50% (Ignore dividend distribution tax).

Also construct EBIT-EPS chart assuming various level of EBIT. (10)

14. A company is considering to undertake a project involving an initial investment of ₹200000 with a scrap value of ₹20000 after project life of 5 years.

The company anticipates a cost of capital of 10% and profit before depreciation and tax as follows:

Year:	0	1	2	3	4	5
Cash flows:	(200000)	35000	80000	90000	75000	20000
(PBDT)						

Calculate the NPV and IRR of the project (10)

Section-II

15. From the following information determine working capital requirement of the enterprise:

- (i) Expected annual sales ₹360000
- (ii) Analysis of sales:
 - Raw materials 40%
 - Labour 30%
 - Expenses 20%
 - Profit 10%
- (iii) Credit allowed to Debtors $2\frac{1}{2}$ Months
- Credit allowed by Creditors $1\frac{1}{2}$ Months
- Raw material in store 1 month
- Processing periods 2 months
- Finished goods in store 4 months
- Bank Overdraft 10000
- Cash in hand 6000
- (iv) Production is carried out evenly during the year, wages and expenses accrue similarly. (10)

16. Discuss the techniques of Risk analysis in Capital Budgeting theory? (10)