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5 SEM TDC FIMT (CBCS) C 512

2022

(Nov/Dec)

COMMERCE

(Core)

Paper : C-512

(Financial Management)

Full Marks : 80

Pass Marks : 32

Time : 3 hours

*The figures in the margin indicate full marks
for the questions*

1. (a) Write True or False : 1×4=4

(i) Profit maximization objectives consider the risk and time value of money.

(ii) Capital budgeting and capital rationing are alternative to each other.

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(2)

(iii) Cost of capital refers to required rate of return.

(iv) Capital profits can never be distributed as dividends to the shareholders.

(b) Fill in the blanks : $1 \times 4 = 4$

(i) A sound capital budgeting technique is based on _____.

(ii) EBIT is also known as _____ profits.

(iii) Working capital is also known as _____ or _____ capital.

(iv) Dividend payout ratio is _____.

2. Write short notes on (any four) : $4 \times 4 = 16$

(a) Operating leverage

(b) Weighted average cost of capital

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(Cor . d)

(3)

(c) Operating cycle concept

(d) Capital gearing

(e) Optimal payout ratio

3. (a) Define 'financial management'. Explain the objectives of financial management. Why is maximizing wealth a better goal than maximizing profits? Discuss.

$3+7+4=14$

Or

(b) "Financial management is more than procurement of funds." In the context of the above statement, what is your thinking about the responsibilities of a finance manager?

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4. (a) Define the term 'working capital'. What factors you have to take into consideration in estimating the working capital needs of a concern? $3+11=14$

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(4)

Or

- (b) Prepare an estimate of net working capital requirement of Wimco Ltd. adding 10% of computed figure for contingencies.

Estimated cost per unit of production :

Raw materials	₹ 80
Direct labour	₹ 30
Overhead (including depreciation ₹ 5)	₹ 65
Total	<u>₹ 175</u>

Additional information :

- (i) Selling price ₹ 200 per unit
- (ii) Level of activity 104000 units of production p.a.
- (iii) Raw materials in stock average 4 weeks
- (iv) Work-in-progress (assume full unit of raw materials required in the beginning of manufacturing; other conversion costs are 50%) average 2 weeks

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(Continued)

(5)

- (v) Finished goods in stock average 4 weeks
- (vi) Credit allowed by suppliers average 4 weeks
- (vii) Credit allowed to debtors average 8 weeks
- (viii) Lag in payment of wages average 1.5 weeks
- (ix) Cash at bank (desired to be maintained) ₹ 25,000

You may assume that the production is carried on evenly throughout the year (52 weeks) and wages and overheads accrue similarly. All sales are on credit basis only.

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5. (a) What is meant by cost of capital and what relevance it has in financial management decision making?

4+10=14

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(6)

Or

(b) A company has an investment opportunity costing ₹ 50,000 with the following expected net cash flow (i.e., after taxes and before depreciation) :

Year	Net Cash Flow
1	8,000
2	8,000
3	8,000
4	15,000
5	20,000
6	10,000
7	6,000
8	5,000

Using 10% as the cost of capital, determine the following : 14

- (i) Payback period
- (ii) Net present value at 10% discount factor

Present value of ₹ 1 at 10% discount factor :

Year	1	2	3	4	5	6	7	8
	0.909	0.826	0.751	0.683	0.621	0.564	0.513	0.467

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(Continued)

(7)

6. (a) Explain the Walter's approach to the theory of dividend decisions. What are the shortcomings of this theory? 10+4=14

Or

(b) "Retained earnings do not involve any cost." Do you agree? Justify your answer. 10+4=14

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