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3 SEM TDC FMGT 2 (Sp) (N/O)

2019

(November)

COMMERCE

(Speciality)

Course : 302

(Financial Management)

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

(New Course)

Full Marks : 80

Pass Marks : 24

Time : 3 hours

1. (a) Write True or False : 1×3=3

- (i) Increase use of debt increases the financial risk of equity shareholders.
- (ii) Profit maximization objectives consider the risk and time value of money.
- (iii) Dividend means ratio of profit to capital.

(b) Choose the most appropriate answer :
1×2=2

(i) Nature of seasonal working capital is

- (1) short-term
- (2) long-term
- (3) medium-term
- (4) variable

(ii) Which leverage can be calculated with the help of percentage change in operating profit and percentage change in sales?

- (1) Degree of financial leverage
- (2) Degree of operating leverage
- (3) Degree of combined leverage
- (4) None of the above

(c) Fill in the blanks :
1×3=3

(i) Cost of retained earning is the _____ cost of dividend foregone by the shareholders.

(ii) The volume of sales is influenced by the _____ policy of a firm.

(iii) The cost of capital is the _____ rate of return expected by its investors.

2. Write short notes on any four of the following :
4×4=16

- (a) Functions of a financial manager
- (b) Working capital management
- (c) Importance of capital structure
- (d) Dividend payout ratio
- (e) Wealth maximization

3. (a) "Maximization of profit is regarded as the proper objectives of investment decision, but it is not as exclusive as maximizing shareholders' wealth." Comment.
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Or

(b) "The finance manager is responsible for shaping the fortunes of the enterprise and is involved in the most vital decision of the allocation of capital." Explain.
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4. (a) A proforma cost sheet of a company provides the following particulars :

Element of cost	Amount per unit
Raw materials	₹ 80
Direct labour	30
Overhead	60
Total cost	170
Profit	30
Selling price	200

(4)

The following further particulars are available :

- (i) Raw materials are in stock on average one month
 - (ii) Materials are in process on average half a month
 - (iii) Finished goods are in stock on average one month
 - (iv) Credit allowed by suppliers is one month
 - (v) Credit allowed to debtors is two months
 - (vi) Lag in payment of wages is $1\frac{1}{2}$ weeks. Lag in payment of overhead expenses is one month
 - (vii) One-fourth of the output is sold against cash. Cash in hand and at bank is expected to be ₹ 25,000
- You are required to prepare a statement showing the working capital needed to finance a level of activity of 104000 units of production.
You may assume that production is carried on evenly throughout the year.

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(Continued)

(5)

Wages and overhead accrue similarly and a time period of 4 weeks is equivalent to a month.

The company usually maintains a liability for bills payable for ₹ 5,000. 14

Or

- (b) What do you understand by working capital? Discuss the various sources of working capital funds. $4+10=14$

5. (a) "Capital budgeting is long-term planning for making and financing proposed capital outlay." Explain. What are the limitations of capital budgeting?

$6+8=14$

Or

- (b) (i) What is the importance of cost of capital? Discuss the problems in determining it. $4+4=8$
- (ii) Calculate the weighted average cost of capital (before tax and after tax) from the following information. Assume that the tax rate is 55% : 6

Type of capital	Proportion in the new capital structure	Before tax cost of capital
Equity capital	25%	24.44%
Preference capital	10%	27.29%
Debt capital	50%	7.99%
Retained earning	15%	18.33%

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(Turn Over)

6. (a) Discuss the merits of ploughing back of profits from the point of view of (i) the company, (ii) the shareholders and (iii) the society. 5+5+4=14

Or

- (b) In Walter's approach, the dividend policy of a firm depends on availability of investment opportunity and the relationship between the firm's internal rate of return and its cost of capital. Discuss. What are the shortcomings of this view? 10+4=14

(Old Course)

Full Marks : 80
Pass Marks : 32

Time : 3 hours

1. (a) Fill in the blanks : 1×4=4
- (i) The principles of corporation finance can be applied to _____ type of organization.
- (ii) A firm will have favourable leverage if its _____ are more than the debt cost.
- (iii) A fixed rate of _____ is payable on debentures.
- (iv) Current Assets - Current Liabilities = _____
- (b) Write True or False : 1×4=4
- (i) Cash management is an important task of the finance manager.
- (ii) Cost of capital is the minimum rate of return expected by its investors.
- (iii) The payment of dividends involves only legal consideration.
- (iv) Gross working capital refers to the capital invested in the total assets of an enterprise.

2. Write short notes on any four of the following : 4x4=16

- (a) Lease financing
- (b) Payback period method
- (c) Wealth maximization
- (d) Gross and net working capital
- (e) Regular dividend policy

3. (a) What is finance function? What are the aims of finance function? Discuss its scope. 2+4+6=12

Or

(b) Critically analyze the functions of a financial manager in a large-scale industrial establishment. What are the responsibilities of a financial manager in a modern business organization? 6+6=12

4. (a) What is meant by financial leverage? Discuss the limitations of financial leverage. Also distinguish between financial leverage and operating leverage. 3+4+4=11

(Continued)

Or

(b) The shares of a company are selling at ₹ 40 per share and it had paid a dividend of ₹ 4 per share last year. The investor's market expects a growth rate of 5 percent per year.

(i) Compute the company's equity cost of capital.

(ii) If the anticipated growth rate is 7 percent per annum, calculate the indicated market price per share. 5+6=11

5. (a) What do you mean by 'long-term finance'? Explain the importance of debentures as a source of long-term finance. 2+9=11

Or

(b) What do you understand by leasing? State its advantages and limitations. 3+4+4=11

6. (a) What is the Modigliani-Miller approach of irrelevance concept of dividends? Under what assumptions do the conclusions hold good? 6+5=11

(Turn Over)

(10)

Or

(b) What is stable dividend policy? Do you recommend a stable dividend policy? Explain it with justification. $2+2+7=11$

7. (a) Define the term 'working capital'. What factors would you take into consideration in estimating the working capital needs of a concern? $2+9=11$

Or

(b) The management of ABC Ltd. has called for statement showing the working capital needed to finance a level of activity of 300000 units of output for the year. The cost structure for the company's product, for the above mentioned activity level, is detailed below :

	Cost per unit
Raw materials	20
Direct labour	5
Overhead	15
Total cost	<u>40</u>
Profit	10
Selling price	<u>50</u>

Information :

- (i) Past experience indicates that raw materials are held in stock on an average for two months
- (ii) Work-in-progress (100% complete in regard to materials and 50% for labour and overheads) will approximately be half a month's production
- (iii) Finished goods remain in warehouse on an average for a month
- (iv) Suppliers of materials extend a month's credit
- (v) Two months credit is allowed to debtors, calculation of debtors may be made at selling price
- (vi) A minimum cash balance of ₹ 25,000 is expected to be maintained
- (vii) The production pattern is assumed to be even during the year
- Prepare the statement of working capital requirements.

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