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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.

(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 : 1×4=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*) : 4×4=16

(a) Operating leverage

(b) Weighted average cost of capital

(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? 14

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

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	₹ 175

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

(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. 14

5. *(a)* What is meant by cost of capital and what relevance it has in financial management decision making? 4+10=14

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

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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