# WEST BENGAL STATE UNIVERSITY

B.Com. Honours 6th Semester Examination, 2022

# FACACOR13T-B.COM. (CC13)

## FINANCIAL MANAGEMENT

Time Allotted: 2 Hours | Full Marks: 50

*The figures in the margin indicate full marks.*
*Candidates should answer in their own words and adhere to the word limit as practicable.*

### GROUP-A

**Answer any *two* questions from the following** 10×2 = 20

1. What do you mean by wealth maximisation objective of a firm? How can it be achieved by the firm? Why is it considered superior to the profit maximisation objective of the firm? 2+3+5

2. A firm has sales of ₹10,00,000, variable cost of ₹7,00,000 and fixed cost of ₹1,50,000 and debt of ₹3,00,000 at 10% rate of interest. Corporate tax rate applicable is 25%. 7+3

   (i) You are required to calculate operating and financial leverages of the company.

   (ii) If the firm wants to double its EPS, how much of a rise in sales would be needed on a percentage basis?

3. (a) Briefly explain the limitations of Walter Model.

   (b) You are given the following information in respect of TOKYO Ltd.

   Earnings ₹20,00,000

   Equity Capital 50,000 shares of ₹10 each

   Cost of capital 11%

   Expected rate of return 10%

   Assuming that dividend pay-out ratios are 0%, 50% and 100% respectively, determine the effects of the different dividend policies on the share price of TOKYO Ltd., using Gordon's Model.

4. (a) Discuss about the functions of financial management. 6+4

   (b) Calculate the present value of a perpetual annuity of ₹1,00,000 per year at a discount rate of 8%.

5. Briefly discuss about the long-term and short-term source of capital. 10

6. Alpha company is considering the purchase of one of the following machines, whose relevant data are as given below: 10

| | Machine-A | Machine-B |
|---|---|---|
| Original Cost | ₹1,00,000 | ₹1,00,000 |
| Estimated life | 3 years | 3 years |
| Earning (after tax): | | |
| Year1 | ₹30,000 | ₹20,000 |
| Year 2 | ₹50,000 | ₹80,000 |
| Year 3 | ₹40,000 | ₹40,000 |

The firm follows the straight line method of depreciation, the estimated salvage value of both the types of machines is zero. Determine the Average Rate of Return (ARR) of both the machines.

## GROUP-B

**Answer any *two* questions from the following** 15×2 = 30

7. The expected cost of goods sold of Corus Ltd. is as follows: 15

| Particulars | Amount per unit(₹) |
|---|---|
| Raw Materials | 150 |
| Direct-Labour | 60 |
| Overhead | 110 |

The company wants to make 20% profit on sales price.

The following further particulars are available:

(i) Raw materials are kept in stock, on an average, for 30 days;
(ii) Processing time can be taken as, on an average, half a month;
(iii) Finished goods in stock, on an average, for one month;
(iv) Credit enjoyed by Corus Ltd. is for two months;
(v) Credit allowed is for one month;
(vi) Average time lag in payment of wages and overhead is half a month;
(vii) Cash in hand and at bank desired to be maintained at ₹40,000.
(viii) Corus Ltd. prefers to value debtors at sales value.

Compute the working capital required for Corus Ltd. with necessary assumptions to finance a level of activity of 36,000 units of production in the next year.

8. The cash flows of two mutually exclusive projects are as under: 5+5+5

| Year | Project-X (₹) | Project-Y (₹) |
|---|---|---|
| 0 | (4,00,000) | (4,00,000) |
| 1 | 50,000 | 1,35,000 |
| 2 | 90,000 | 1,35,000 |
| 3 | 1,00,000 | 1,35,000 |
| 4 | 1,00,000 | 1,35,000 |
| 5 | 1,00,000 | - |
| 6 | 1,00,000 | - |

Using 12% as interest rate, which project will you select under:

(i) NPV method
(ii) IRR method
(iii) PI method.

9. (a) State the importance of cost of capital. 4+5+6
   (b) Briefly evaluate payback period method as a method of project evaluation.
   (c) A company's current dividend on equity shares is ₹60 per share. dividends are expected to grow at 6% and the current market price per share is ₹950.
      (i) Calculate cost of equity share capital of the company.
      (ii) If the company's debt to equity ratio is 1:2, compute weighted Average Cost of Capital of the company assuming 30% corporate tax rate and interest on debt 9.5%.

10. The balance sheet of Alpha Numeric company is given below: 15

| **Liabilities** | **₹** | **Assets** | **₹** |
|---|---|---|---|
| Equity Capital (of ₹10 per share) | 90,000 | Net Fixed Assets | 2,25,000 |
| 10% Long Term Debt | 1,20,000 | Current Assets | 75,000 |
| Retained earnings | 30,000 | | |
| Current Liabilities | 60,000 | | |
| | **3,00,000** | | **3,00,000** |

The company's total assets turnover ratio is 3, its fixed operating cost is ₹1,50,000 and its variable operating cost ratio is 50%.

You are required to:

(i) Calculate the different type of leverages for the company.

(ii) Determine the likely level of EBIT if EPS is

(a) ₹1 (b) ₹2 (c) ₹0

11. Your company proposes to undertake an investment project at a cost of ₹100 lakhs. The various sources from which the same can be financed and their relative specific costs are given below: 15

| **Proposed Sources** | **Amount (₹ lakhs)** | **Cost of capital (%)** |
|---|---|---|
| Equity | 50 | 20 |
| Retained Earnings | 10 | ? |
| Preference Shares | 10 | 10 |
| Debentures | 30 | **See Note (a)** |

**Note (a)** 12% debentures of ₹1,000 each to be issued at a premium of 10% redeemable after 5 years. Assuming a corporate tax rate of 30% recommend the minimum acceptable rate of return for the proposed project.

12. (a) What are the assumptions underlying MM Hypothesis? 5+5+5
   (b) Write in brief criticism of MM Hypothesis.
   (c) A company current has 1,00,000 shares. The company needs ₹10,00,000 to finance its new investments. The total earnings of the firm during the current year would be ₹10,00,000 and ₹5,00,000 would be paid by way of dividends. The market price per share at the end of the current year is expected to be ₹110. If the cost of capital is 15%, ascertain the present value of a share under the Modigliani-Miller model.

**N.B. :** *Students have to complete submission of their Answer Scripts through E-mail / Whatsapp to their own respective colleges on the same day / date of examination within 1 hour after end of exam. University / College authorities will not be held responsible for wrong submission (at in proper address). Students are strongly advised not to submit multiple copies of the same answer script.*

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