

2020

FINANCIAL MANAGEMENT — HONOURS

Course : DSE 6.2A

Full Marks : 80

The figures in the margin indicate full marks.

*Candidates are required to give their answers in their own words
as far as practicable.*

Group - A

Answer *any two* questions.

15×2

1. You are working in a firm having ROI 18% and Cost of Capital 12%. For a proposed project with effective life of 3 years, the inflows are estimated as ₹ 67,500, ₹ 76,500 and ₹ 56,700. Calculate the present value of benefits from the project. 15
2. Discuss Matching and aggressive approaches in the context of Working Capital Financing strategies. 15
3. Y Ltd. started a project with the initial investment of ₹ 5,00,000. The life of the project is 5 years. It is expected that cash inflows starting from first year to fifth year will be ₹ 1,10,000, ₹ 1,40,000, ₹ 1,80,000, ₹ 2,50,000 and ₹ 3,80,000 respectively. What will be the Pay back period of the project? 15
4. From the following information, determine the theoretical market price of each equity share of a company as per Walter's Model :

Earnings of the Company	₹ 10,00,000
Dividend paid	₹ 5,00,000
No. of equity shares outstanding	₹ 2,00,000
Cost of Equity capital	12%
Rate of return on investment	15%

15

Group - B

Answer *any two* questions.

25×2

5. Calculate weighted average cost of capital (WACC) considering market values for AD Ltd. from the following details :

Sources of Capital

Equity share capital (₹ 10 each)	₹ 12,00,000
Retained Earnings	₹ 28,00,000
14% Preference shares (issued at a premium of 8%)	₹ 90,000
15% Debentures	₹ 3,60,000

Please Turn Over

Other information :

- Applicable corporate tax rate 30%
- Market price per share ₹ 50, Dividend per share is expected to be ₹ 6. AD Ltd. maintains a growth of 5% in this regards.
- Debentures of face value ₹ 1000 each were issued at 3% discount (with an additional underwriters' commission of 1.5% on face value). Tenure of Debenture 10 years. 25

6. PP Construction Ltd. is considering the five possible projects to invest in, as shown below :

Project	Cash Outflow (₹)	PV of Cash Inflows (₹)
A	5,00,000	7,50,000
B	2,00,000	2,10,000
C	5,00,000	8,00,000
D	1,00,000	80,000
E	3,00,000	3,30,000

Available fund is ₹ 12,00,000. Apply Capital rationing decision concept and select the projects. All the projects are divisible in nature. 25

7. Relevant information about two companies are given below :

	X	Y
Annual production capacity (Units)	1,00,000	1,50,000
Capacity utilisation and sales	75%	75%
Unit selling price (₹)	40	50
Unit variable cost (₹)	15	15
Fixed cost for the year (₹)	2,00,000	3,00,000
Equity capital (₹ 10 per share)	5,00,000	7,00,000
10% Preference share capital (₹)		50,000
15% Debentures (₹)	1,00,000	2,00,000

Determine the degree of Operating Leverage, degree of Financial Leverage, degree of Financial Leverage and Earning per Share of two companies. (Tax rate 40%). 25

8. The capacity of your company is to produce 40,000 units of valve per annum. The company expects to operate at 60% of the capacity level. You are required to ascertain the working capital requirement at the current level of operation.

The following information on the cost-price structure of valves at the current level of production is available :

Elements of costs	Per unit (₹)
Raw-material	6
Direct labour	3
Overhead	4
Total cost	13
Profit	3
Selling price	16

Raw-materials are in stock, on an average, for 2 months. The duration of the production process is half a month. Finished goods are in stock, on an average for 1 month. Credit allowed to customers is 3 months and that obtained from suppliers is 1.5 months, lag in payment of wages is half a month. There is usually no lag in payment of overhead. 25

9. X Ltd. wants to purchase one machine out of two mutually exclusive machines under consideration. Other information related to these machines are as below :

Particulars	Machine 1	Machine 2
Purchase price (₹)	3,00,000	2,80,000
Estimated life (years)	5	5
Net cash flows (₹)		
Year 1	80,000	60,000
Year 2	1,20,000	80,000
Year 3	90,000	1,20,000
Year 4	85,000	1,50,000
Year 5	1,58,000	92,000

Compute the NPV of each machine assuming a cost of capital of 10%. Which machine should the company buy?

The present value of ₹ 1 to be received at the end of each year at 10% is given below :

Year	1	2	3	4	5
P.V. (₹)	0.909	0.826	0.751	0.683	0.621

10. (a) Mention any five important factors that a firm should consider in formulating dividend policy.

(b) Discuss financial leverage with reference to the formulae.