2018

FINANCIAL MANAGEMENT — HONOURS

Eighth Paper

(A – 34 – A)

(Accounting and Finance Group)

Full Marks – 100

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

1. Describe the three broad areas of financial decision making. 5

2. Do you think that the profit maximization goal is an operationally feasible criterion? Critically explain your view. 5

Or

Comment on the emerging role of the chief financial manager in the present business environment. 5

3. A fixed deposit receipt has a maturity value of Rs. 1,33,100. What is the amount at which the fixed deposit has been initially purchased if compound interest rate is 10% p.a. and the maturity period is 3 years? 5

Or

Explain the risk return relationship in the context of modern business environment. 5

4. Mr. Sen estimates that he needs to withdraw Rs. 2,40,000 every year from his bank for the next three years. He wants to know the amount of deposit he should have in his bank today to meet the above requirement if the rate of interest is 4% p.a. (Given $PVIFA_{4\%, 3} = 2.775$). 5

Or

Mr. X retires at the age of 60 and his employer gives him two options :

Option one is a lump sum of Rs. 12,00,000 on retirement, and

Option two is to accept a pension of Rs. 1,50,000 per year for rest of his life. It is expected that he will survive for another 15 years. If the rate of interest is 9% p.a. and $PVIFA_{9\%, 15} = 8.061$, advice Mr. X about his best alternative. 5

5. S. Ltd. is planning its capital investment programme for next year. It has 4 proposals all of which gives a positive NPV at the company cut off rate of 12%. The required initial capital outlay and present values are as follows :

[Turn Over]

Proposals	Initial Capital Outlay (Rs.)	NPV (@ 12%)	Profitability Index
X1	2,25,000	67,500	1.30
X2	1,00,000	45,000	1.45
X3	1,50,000	60,000	1.40
X4	1,75,000	64,750	1.37

The company is limited to a capital spending of Rs. 3,00,000.

Which proposals the company should accept? Assume that the proposals are indivisible and there is no alternative use of the money allocated for capital budgeting. 5

6. L Ltd. provides you the following information :

(a)	Purchase price of machine	Rs. 1,73,500
(b)	Useful life of machine	3 years
(c)	Salvage value at the end of useful life	Nil
(d)	Cost of Capital	10%
(e)	Cash Flow after Tax (CFAT)	

Year – 1	1,00,000
Year – 2	1,00,000
Year – 3	80,000

Note : Present Value factors @ 10% are as follows :

Year :	1	2	3
PV Factor :	0.909	0.826	0.751

Calculate the Discounted Payback Period. 5

Group – B

7. From the following information presented by a manufacturing company, estimate the working capital requirement for the coming year.

The monthly sales volume is expected to be 40,000 units at ₹20 per unit. The anticipated ratios of different elements of cost to selling price are : Raw-material – 50%, Labour – 25%. It is estimated that budgeted overhead per week will be ₹ 20,000 including depreciation of ₹ 5,000. Planned stock will include raw-material for ₹ 1,50,000 and finished stock 20,000 units. Credit period allowed to debtors is 3 weeks. Credit period expected to be received from suppliers is 2 weeks. Overhead payment will be made 1 week after incurring expenses. Wages will be paid at the beginning of the week following the week of the work. The average processing period of each unit will be 7 days.

Cash in hand to be maintained for contingencies is ₹ 20,000. Arrangement of bank overdraft to the extent of ₹ 1,00,000 has been made. Assume that production is carried on evenly through out the year and overheads accrue similarly. 10

Or

7. (a) The following information is provided by X Ltd. for the year ending 31.3.2017.

Raw Material storage period	45 days
WIP Conversion Period	18 days
Finished Goods storage period	22 days
Debt Collection period	30 days
Creditors payment period	55 days
Annual cash cost of Operation	Rs. 18 Lakhs

(1 year = 360 days)

You are required to calculate :

(i) Operating Cycle Period. 3

(ii) Number of Operating Cycles in a year. 3

(b) Why are both gross concept of working capital and net concept of working capital Useful for working capital management? 4

8. (a) Do you recommend that a firm should finance its current assets entirely with short-term financing? Explain. 5

(b) Discuss various bank lending norms as recommended by Tandon Committee for financing of working capital requirement of business. 5

9. A company is exploring the proposal of replacing its existing machine which is unable to meet the production schedule to match the rapidly rising demand of its product. The company has two options : either to overhaul the existing machine at a cost of ₹ 30 lakh or to go in for a New Machine with higher capacity at cost of ₹ 48 lakh. Both the machines are expected to be operational for 5 years.

The expected cash flows from these two alternatives are as follows :

Year	Cash Inflows (of ₹ in lakh)	
	Overhauled Machine	New Machine
1st year	5	12
2nd year	6	16
3rd year	24	20
4th year	16	20
5th year	14	18
Total	65	86

The cost of capital to be considered is 10%.

You are required to appraise the two alternatives with the help of (a) Net Present Value Method and (b) Discounted Pay Back Period Method. Present value of ₹ 1 at 10% discount rate are as follows : 10

Year	1	2	3	4	5
P.V.	0.91	0.83	0.75	0.68	0.62

10. Calculate different kinds of leverage from the following information of XYZ Company :

Production and Sales	1600 units
Selling price per unit	₹ 30
Variable cost per unit	₹ 20
Fixed Operating costs :	
Situation A	₹ 4,000
Situation B	₹ 2,000
Situation C	₹ 6,000

Financial alternatives :	Plan		
	I	II	III
Equity	₹ 15,000	₹ 10,000	₹ 5,000
Debt Carrying 10% interest	₹ 5,000	₹ 10,000	₹ 15,000

How are the information relating to leverage useful in financing decisions? 8+2

Or

What do you mean by optimum capital structure? What factors would you consider in Planning capital structure of your company? 10

11. (a) What do you mean by Explicit cost of capital and implicit cost of capital? 4

(b) X Ltd. opts for the following capital structure :

	₹
Equity Shares (1,00,000 shares of ₹ 10 each)	10,00,000
10% debentures	15,00,000
	25,00,000

The company is expected to declare a dividend of ₹ 2 per share. The market price per share is ₹ 20. The dividend is expected to grow at 10%. Compute the weighted average cost of capital assuming 50% tax rate. 6

12. The earning per share of a company is ₹ 8 and the rate of capitalization applicable is 10%. The company has before it, an option of adopting (a) 50%, (b) 75%, and (c) 100% dividend payout ratio.

Compute the market price of the company's quoted share as per Gordon's Model if the company can earn a return of (a) 15% (b) 10% and (c) 5%. 10

Or

Critically discuss Walter's dividend model. To what extent are the shortcomings of this model taken care of by Gordon's dividend model? 5+5

13. (a) Discuss the steps involved in the process of financial control in any business firm. 5

(b) Write short note on C.V.P Analysis as a tool of financial control. 5