6. Enumerate the various sources of long term funds in India with special emphasis on new financial instruments. 971

7. Write comprehensive notes on (any *two*)

(a) Dimensions of Cash Management 9.11

(b) Project appraisal techniques for capital budgeting

(c) Financial statement analysis. 64, 75, 109, 143,

2004

FINANCIAL MANAGEMENT

Paper : 204

Full Marks - 70

Time - Three hours

The questions are of equal value.

Answer any *five* questions.

1. Radiance Garments Ltd. manufactures readymade garments and sells them on credit basis through a network of dealers. Its present sale is Rs. 60 lakh per annum with 20 days credit period. The company is contemplating an increase in the credit period with a view to increasing sales. Present variable costs are 70% of sales and the total fixed costs Rs. 8 lakh per annum. The company expects pre-tax return on investment @ 25%. Some other details are given as under :

Proposed credit policy	Average collection period (days)	Expected Annual Sales (Rs. lakh)
I	30	65
II	40	70
III	50	74
IV	60	75

Which credit policy should the company adopt ? Assume 360 days a year.

3,68,800

Honda Motors Ltd. installed a machine with an estimated life of 5 years and used it for 3 years. The initial cost including installation charges amounted to Rs. 80 lakh. According to current assessment, the machine can be used for another 4 years. The company has just received an offer of Rs. 50 lakh for the machine. It is unlikely that a similar offer will be received in the near future. The machine is used for manufacturing a product which has a falling demand. Losses are anticipated over the next two years. Details of profitability projections for the next 4 years are as follows :

Particulars	Years (Rs. in lakh)			
	1	2	3	4
Sales	50.00	45.00	40.00	35.00
Less Variable cost	27.00	24.50	23.00	18.00
Fixed cost (allocated)	8.00	7.50	6.50	6.00
Depreciation	16.00	16.00	–	–
Net Profit/(Loss)	(1.00)	(3.00)	10.50	11.00

As the estimated working results are not very good and as the company has got a very good offer for the machine, the managing director feels that the machine should be sold immediately.

What is your advice to the M.D. ? Support your answer with workings.

Cost of capital of the company is 15%. Ignore tax.
Note : Present value of rupee 1 at 15%

At the end of year	Present value
1	0.8696
2	0.7561
3	0.6574
4	0.5717

3\. (a) A company has a profit margin of 20% and asset turnover of 3 times. What is the company's return on investment ? How will this return on investment vary if—

(i) Profit margin is increased by 5% ?

(ii) Asset turnover is decreased to 2 times ?

(iii) Profit margin is decreased by 5% and asset turnover is increased to 4 times ?

(b) A company is capitalised as follows :

Rs. 6,00,000 7% Preference shares, Re. 1 each

Rs. 16,00,000 Ordinary shares, Rs. 1 each

Rs. 22,00,000

The following information is relevant as to its financial year just ended :

Profit after taxation @ 50% Rs. 5,42,000

Ordinary dividend paid	20%
Depreciation	Rs. 1,20,000
Market price of Ordinary shares	Rs. 4

You are required to state the following showing the necessary workings :

(i) Dividend yield on the ordinary shares

(ii) Coverage for preference and ordinary dividends.

(iii) Price-earnings (P/E) ratio

(iv) Net cash flow.

4. (a) From the following information available for four companies, calculate

(i) EBIT and (ii) EPS.

Particulars	P	Q	R	S
Selling price / unit (Rs.)	15	20	25	30
Variable cost/unit (Rs.)	10	15	20	25
Quantity (Nos.)	20,000	25,000	30,000	40,000
Fixed costs (Rs.)	30,000	40,000	50,000	60,000
Interest (Rs.)	15,000	25,000	35,000	40,000
Tax Rate (%)	40	40	40	40
No. of Equity shares	5,000	9,000	10,000	12,000

(b) From the following Balance Sheets of Orgafield services prepare a cash flow statement for the year 2002 :

1,05,000

No use of drawing

Balance Sheet

Liability	As on 31.12.01	As on 31.12.02
Bill Payable	50,000	40,000
Creditors	1,05,000	1,30,000
Capital	2,60,000	3,35,000
	4,15,000	5,05,000
Assets		
Cash	25,000	1,30,000
Debtors	80,000	1,00,000
Stock	60,000	50,000
Fixed Assets	2,50,000	2,25,000
	4,15,000	5,05,000

Additional information :

(i) Drawings by the proprietor during the year was Rs. 9,000.

(ii) There was no purchase or sale of fixed assets.

5. Elaborate the different schools of thought regarding impact of financial leverage on cost of capital and value of a firm.

P-674.