

2005

FINANCIAL MANAGEMENT

PAPER: 204

Full Marks: 70

Time: Three hours

The questions are of equal value.

Answer all questions.

1. Elaborate the major types of financial management decisions that business firms make. 3

Or

Why is it inappropriate to seek profit maximisation as the goal of financial decision-making? How do you justify the adoption of present value or wealth maximisation as an apt substitute for it? State arguments in your answer.

2. From the following balance sheets of Cosmos Ltd., prepare funds flow statement. (Rs. '000)

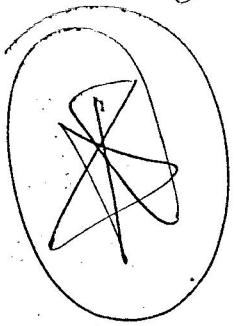
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Or

The ZBB Ltd. needs Rs. 5,00,000 for construction of a new plant. The following three financial plans are feasible.

- (i) The company may issue 50,000 equity shares at Rs. 10 per share. *10, 20, 4, 60, 1*
- (ii) The company may issue 25,000 equity shares at Rs. 10 per share and 2,500 debentures of Rs. 100 denomination bearing 8% rate of interest. *10, 40, 80, 1.6*
- (iii) The company may issue ~~25,000~~ equity shares at Rs. 10 per share and 2,500 preference shares at Rs. 100 per share bearing 8% rate of dividend. *10, 1, 2*

If the company's earnings before interest and taxes are Rs. 10,000, Rs. 20,000, Rs. 40,000, Rs. 60,000 and Rs. 1,00,000. What are the earnings per share under each of the three financial plans? Which alternative would you recommend and why? Assume corporate tax rate to be 50%. *41-1, 4, 1, 2*



*Debt 250000*  
*Int 20000*  
*2* *4* *3*  
*3* *8* *6*

Or

- (a) Compare the Net Present Value and Internal Rate of return project appraisal techniques with respect to Accept or Reject decision rules and Ranking mutually exclusive projects. 10

(b) "Payback reciprocal is a good approximation of the rate of return." Explain. *See Note 4*

4. Explain the concept of financial leverage. Show the impact of financial leverage on EPS and Financial Risk of Equity shareholders. *635, 637, 656*

Or

From the following information and the assumption that the cash balance in hand on 1 January 2003 is Rs. 72,500, prepare a cash Budget:

Month	Sales	Materials purchases	wages	Production overheads	office sales overheads
	Rs.	Rs.	Rs.	Rs.	Rs.
January	72,000	25,000	10,000	6,000	5,500
February	97,000	31,000	12,100	6,300	6,700
March	86,000	25,500	10,600	6,000	7,500
April	88,600	30,600	25,000	6,500	8,900
May	1,02,500	37,000	22,000	8,000	11,000
June	1,08,700	38,800	23,000	8,200	11,500

6

(iii) Interim Dividend has been paid Rs. 4,000 in 2001.

(iv) Income tax Rs. 10,000 has been paid in 2001.

Or

You have the following information on the performance of Prosper Co. as also the industry averages:

- (i) Determine the indicated ratios for Prosper Co. and

(ii) Indicate the company's strengths and weaknesses as shown by your analysis.

BALANCE SHEET AS ON 31ST DECEMBER 2003

LIABILITIES	Rs.	ASSETS	Rs.
Equity Share Capital	24,00,000	Net Fixed Assets	12,10,000
10% Debentures	4,60,000	Cash	4,40,000
Creditors	3,30,000	Debtors	5,50,000
Bills Payable	4,40,000	Stock	16,50,000
Other current liabilities	2,20,000		
	<u>38,50,000</u>		<u>38,50,000</u>

3

Contd.

*Signature*

STATEMENT OF PROFIT FOR YEAR  
ENDING 31ST DECEMBER, 2001

		Rs.
Sales		55,00,000
Less: Cost of goods sold:		
Materials	20,90,000	
Wages	13,20,000	
Factory overheads	6,49,000	40,59,000
Gross Profit		14,41,000
Less: Selling & Distribution Cost	5,50,000	
Administration & General Exp.	6,14,000	11,64,000
Earnings before interest & Taxes		2,77,000
Less: Interest Charges		46,000
Earnings before Taxes		2,31,000
Less: Taxes (50%)		1,15,500
Net Profit		1,15,500

RATIOS CONSIDERED

Current Assets/Current Liabilities	2.4
Sales/Debtors	3.0
Sales/Stocks	9.8
Sales/Total Assets	2.0
Net Profit/Sales	3.3%
Net Profit/Total Assets	6.6%
Net Profit/Net worth	10.7%
Total debts/Total Assets	63.5%

INDUSTRY

3. Precision Instruments is considering two mutually exclusive projects X and Y; following details are made available to you—

(Rs. in lakhs)

	Project X	Project Y
Project cost	700	700
Cash inflows: Year 1	100	500
Year 2	200	400
Year 3	300	200
Year 4	450	100
Year 5	600	100
Total	1650	1300

Assume no residual values at the end of the fifth year. The firm's cost of capital is 10% compute in respect of each of the two projects:

- (i) Net present value, using 10% discounting
- (ii) Internal rate of return, and
- (iii) Profitability index

Present value of Re. 1

Year	10%	25%	26%	27%	28%	36%	37%	38%	40%
1	.909	.800	.794	.787	.781	.735	.730	.725	.714
2	.826	.640	.630	.620	.610	.541	.533	.525	.510
3	.751	.512	.500	.488	.477	.398	.389	.381	.364
4	.683	.410	.397	.384	.373	.292	.284	.276	.260
5	.621	.328	.315	.303	.291	.215	.207	.200	.186

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