2008

FINANCIAL MANAGEMENT

Paper : 204

Full Marks - 70

Pass Marks - 28

Time - Three hours

The figures in the margin indicate full marks for the questions.

Answer any *five* questions.

1. Write a comprehensive note on the scope of Financial Management. 14

2. From the information given below, prepare summarised Trading and Profit and Loss A/c and a Balance Sheet :–

   (i) G.P. Ratio – 25%

   (ii) N.P. Ratio – 20%

   (iii) Stock Turnover – 10

   (iv) Net Profit / Capital $\frac{1}{5}$

   (v) Capital / Total liabilities $\frac{1}{2}$

   (vi) Fixed Assets / Capital $\frac{5}{4}$

   (vii) Fixed Assets / Current Assets $\frac{5}{7}$

   (viii) Fixed Assets – Rs. 10,00,000

   (ix) Closing Stock – Rs. 1,00,000. 14

[Turn over

3. A company is considering whether it should spend Rs. 4 lakhs on a project to manufacture and sell a new product. The unit variable cost of the product is Rs. 6. It is expected that the new product can be sold at Rs. 10 per unit. The annual fixed costs (only cash) will be Rs. 20,000. The project will have a life of six years with a scrap value of Rs. 20,000. The cost of capital of the company is 15%. The only uncertain factor is the volume of sales. To start with, the company expects to sell at least 40,000 units during the first year.

Required :

(i) Net present value of the project based on the sales expected during the first year and on the assumption that it will continue at the same level during the remaining years.

(ii) The minimum volume of sales required to justify the project.

Note :-Annuity of Re.1 at 15% for six years has a present value of Rs. 3.7845 and present value of Re. 1 received at the end of sixth year at 15% is Re. 0.4323. 14

4. XYZ Ltd intends to set up a project with capital cost of Rs. 50,00,000. It is considering three alternative proposals of financing :

Alternative 1 = 100% Equity financing

Alternative 2 – Debt-Equity 1 : 1

Alternative 3 – Debt Equity 3 : 1

The estimated annual net cash inflow is @ 24% i.e. Rs. 12,00,000 on the project. The rate of interest on debt is 15%.

Calculate the weighted average cost of capital for three different alternatives and analyse the capital structure decision. 14

5. Foods Ltd is presently operating at 60% level producing 36,000 packets of snack foods and proposes to increase capacity utilisation in the coming year by $33\frac{1}{3}$% over the existing level of production. The following data have been supplied –

(i) Unit cost structure of the product at current level :

		Rs.
Raw Material	–	4
Wages (Variable)	–	2
Overheads (Variable)	–	2
Fixed Overhead	–	1
Profit	–	3
Selling Price	–	12

(ii) Raw materials will remain in stores for 1 month before being issued for production. Material will remain in process for further 1 month. Suppliers grant 3 months credit to the company.

(iii) Finished goods remain in godown for 1 month.

(iv) Debtors are allowed credit for 2 months.

(v) Lag in wages and overhead payments is [illegible] and these expenses accrue evenly [illegible] production cycle.

(vi) No increase either in cost of inputs or [illegible] is envisaged. Prepare a projected [illegible] statement and the working capital [illegible] the new level, assuming that a [illegible] balance of Rs. 19,500 has to be [illegible]

6. Mittal Garments Ltd manufactures readymade [illegible] and sells them on credit basis through a [illegible] dealers. Its present sale is Rs. 60 lakh per [illegible] 20 days credit period. The company is [illegible] an increase in the credit period with a [illegible] increasing sales. Present variable costs are [illegible] sales and the total fixed costs Rs. 8 lakh per [illegible] The company expects pre-tax return on [illegible] @ 25%. Some other details are given as [illegible]

Proposed credit policy		Average collection period		Expected [illegible] sales (Rs. [illegible])
I	–	30 days	–	65
II	–	40 days	–	[illegible]
III	–	50 days	–	[illegible]
IV	–	60 days	–	75

Required :

Which credit policy should the company [illegible] Assume 360-day a year. [illegible]

7. Critically examine various schools of [illegible] existence of optimum capital structure vis [illegible] financial leverage. [illegible]