25 (2) FIMN 204

2011

FINANCIAL MANAGEMENT

Paper : 204

(Old Syllabus)

Full Marks : 70

Time : 3 hours

The figures in the margin indicate full marks for the questions

Answer *any* **five** questions

1. Define the scope of Financial Management. In what respect is the objective of wealth maximisation superior to the profit maximisation objective? 10+4

2. The projected cash flows from two mutually exclusive projects *A* and *B* are as under :

Period	*Project A*	*Project B*
0 (outflow)	Rs 22,000	Rs 27,000
1–7 (inflow)	Rs 6,000 (each year)	Rs 7,000 (each year)
Project life	7 years	7 years

Advise on project selection with reference to internal rate of return. 14

3. Show the similarity of the NOI approach and M-M hypothesis on the issue of an optimum capital structure. Explain the position of M-M on this issue. 14

4. A company plans to sell 30000 units next year. The expected cost of goods sold is as follows :

	Rs per unit
Raw Material	100
Manufacturing and Administration Expenses	30
Selling Expenses	20
Selling Price	200

The duration at various stages of the operating cycle is expected to be as follows :

Raw materials stage	2 months
Work-in-process stage	1 month
Finished goods stage	½ month
Debtors stage	1 month

Assuming the monthly sales level of 2500 units—

(a) calculate the investment in various current assets;

(b) estimate the gross working capital requirement if the desired cash balance is 5% of the gross working capital requirements. 14

5. From the information given below, prepare summarised Trading and Profit & Loss A/c and a Balance Sheet : 14

(i) GP Ratio—25%

(ii) NP Ratio—20%

(iii) Stock Turnover—10

(iv) Net Profit/Capital—1/5

(v) Capital/Total Liabilities—1/2

(vi) Fixed Assets/Capital—5/4

(vii) Fixed Assets/Current Assets—5/7

(viii) Fixed Assets—Rs 10,00,000

(ix) Closing Stock—Rs 1,00,000

6. *XYZ* Ltd's capital structure consists of the following :

	(Rs in lakhs)
Equity Shares of Rs 100 each	20
Retained Earnings	10
9% Preference Shares	12
7% Debentures	8
Total	50

Its EBIT is 12% which is likely to remain unchanged after expansion. The expansion involves additional finances of Rs 25 lakhs for which the following alternatives are available :

(i) Issue of 20000 equity shares at a premium of Rs 25 per share

(ii) Issue of 10% preference shares

(iii) Issue of 8% debentures

It is estimated that P/E ratio in the case of Equity Shares, Preference Shares and Debentures financing would be 21·4, 17 and 15·7 respectively.

Which of these alternatives of financing would you recommend and why? The income tax rate is 50%. 14

7. Write notes on (any *two*) : 7×2=14

(a) Financial leverage

(b) Cash management

(c) Financial instruments for long-term financing

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