

25 (2) FIMN 203 (N)/204 (O)

2012

FINANCIAL MANAGEMENT

Paper : 203 (New)/204 (Old)

(New and Old Syllabi)

Full Marks : 70

Time : 3 hours

The figures in the margin indicate full marks for the questions

Answer any **five** questions

1. Discuss the scope of finance functions. What are the objectives of financial management? 14
2. From the following information, calculate the net present value of the two projects and suggest which of the two projects should be accepted assuming a discount rate of 10% : 14

	Project A	Project B
Initial investment	Rs 30,000	Rs 40,000
Estimated life	5 years	5 years
Scrap value	Rs 2,000	Rs 3,000

The cash flows after taxes are as follows :

Year	1	2	3	4	5
Project A	: 7000	12000	12000	5000	4000
Project B	: 22000	12000	7000	5000	4000

12A—400/1298

(Turn Over)

3. Logistics Ltd. has currently an ordinary share capital of Rs 25 lakhs, consisting of 25000 shares of Rs 100 each. The management is planning to raise another Rs 20 lakhs to finance major programme of expansion through one of four possible financing plans. The plans are as follows :

- (i) Entirely through ordinary shares
- (ii) Rs 10 lakhs through ordinary shares and Rs 10 lakhs through long-term borrowings at 8% interest per annum.
- (iii) Rs 5 lakhs through ordinary shares and Rs 15 lakhs through long-term borrowings at 9% interest per annum
- (iv) Rs 10 lakhs through ordinary shares and Rs 10 lakhs through preference shares with 5% dividend

The company's expected earnings before interest and taxes (EBIT) are Rs 8 lakhs. Assuming a corporate tax rate of 50%, determine the earnings per share (EPS) in each alternative and comment on the implications.

4. Compute the total value of ABC Ltd., value of equity shares and the overall cost of capital from the following information :

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Net Operating Income	Rs 3,30,000
Total Investment	Rs 20,00,000

Equity capitalisation rate :

- (i) If the company uses no debt—11%
- (ii) If the company uses Rs 10,00,000 debentures—12%
- (iii) If the company uses Rs 15,00,000 debentures—15%

Assume that Rs 10,00,000 debentures can be raised at 6% rate of interest whereas Rs 15,00,000 debentures can be raised at 8% rate of interest.

5. A firm is desiring an increase in credit period from 30 to 60 days. The average collection period which is 45 days at present is expected to increase to 75 days. It is also likely that the bad debt expenses increase from 1% to 3% of sales. Total credit sales are expected to increase from the level of 30000 units to 34500 units. The present average cost per unit is Rs 8, the variable cost and selling price are Rs 6 and Rs 10 per unit respectively. Assume the firm expects a return of 15% . Should the firm extend credit period?

14

(4)

6. A company having a net working capital of Rs 2.8 lakhs as on 30.6.2010 indicates the following financial ratios and performance figures :

Current ratio—	2.4
Liquidity ratio—	1.6
Inventory turnover (on cost of sales)—	8
Gross profit on sales—	20%
Credit allowed (months)—	1.5

The company's fixed assets are equivalent to 90% of its net worth (share capital plus reserve) while reserves amounted to 40% of share capital. Prepare the Balance Sheet of the company as on 30.6.2010 showing step-by-step calculations. 14

7. Write notes on any *two* of the following :
7×2=14

- (a) Financial leverage
- (b) Miller-Modigliani hypothesis on capital structure
- (c) Working capital management
