लक्ष्यं विश्रमानम्

WEST BENGAL STATE UNIVERSITY

B.Com. Honours 6th Semester Examination, 2023

FACACOR13T-B.Com. (CC13)

Financial Management

Time Allotted: 2 Hours | Full Marks: 50

The figures in the margin indicate full marks.
Candidates should answer in their own words and adhere to the word limit as practicable.
All symbols are of usual significance.

GROUP-A

Answer any *two* questions from the following $10 \times 2 = 20$

1. (a) Distinguish between Simple interest and Compound interest. 4+6

(b) Mr. Sen deposits Rs. 20,000 at the end of every year for 5 years and the deposit earns a compound interest @ 8% p.a. Determine how much money he will have at the end of 5th year.

[Given. $FVIFA_{r,n} = 5.867$ for $r = 8\%$ and $n = 5$]

2. (a) What are the basic assumptions of Walter's Dividend Model? 5+5

(b) Sunlight Ltd. has an investment of ₹25,00,000 divided into 50,000 ordinary shares and the internal rate of return of the company is 12%. What will be the price per share as per the Walter's Model if the payout ratio is 75% and Cost of Capital is 15%? Do you consider that the given payout ratio is optimum?

3. A company estimates its cost of debt and cost of equity for different debt-equity mix, as under: 10

% of Debt	0%	20%	40%	60%	80%	90%
Cost of Debt	-	10%	10%	12%	14%	16%
Cost of Equity	18%	19%	21%	25%	32%	40%

Compute the overall Cost of Capital and Optimal Debt Equity mix under the traditional theory.

GROUP-B

Answer any *two* questions from the following $15 \times 2 = 30$

4. (a) What is an indifference point in EBIT-EPS analysis? How do you compute it? 5+10

(b) MM Ltd. had the following Balance Sheet as on March 31, 2023:

Liabilities	₹ (in crores)	Assets	₹ (in crores)
Equity Share Capital (one crore shares of ₹10 each)	10	Fixed Assets (Net)	25
Reserves and Surplus	2	Current Assets	15
15% Debentures	20		
Current Liabilities	8		
	40		40

The additional information given is as under:

Fixed Costs per annum (excluding interest)	₹8 crores
Variable operating costs ratio	65%
Total Assets Turnover ratio	2.5
Income Tax Rate	40%

Required: Calculate the following:

(i) Earnings per share (ii) DOL (iii) DFL (iv) DCL

5. A company is considering the following two capital investment proposals: 15

	Proposal I Rs.	Proposal II Rs.
Investment required	4,00,000	5,00,000
Estimated life	4 years	5 years
Earnings before interest and taxes:	Rs.	Rs.
Year 1	1,20,000	1,40,000
Year 2	1,40,000	1,60,000
Year 3	1,60,000	1,80,000
Year 4	2,20,000	2,20,000
Year 5	-	2,00,000

If the corporate tax rate be 40% and the cut off rate be 10%, advise the company which proposal is preferable under IRR method.

6. From the following details concerning a manufacturing enterprise, estimate the amount of Working Capital needed to finance an activity level of 60%. The capacity of the concern is to produce 2,00,000 units p.a. 15

(i) Expected selling price ₹25.

(ii) 40% of selling price is the cost of raw materials.

(iii) 20% of selling price is the cost of labour.

(iv) Overhead (including depreciation ₹1,20,000) - ₹6,00,000.

(v) Planned stock will include raw materials for ₹1,50,000 and 20,000 units of finished goods.

(vi) Materials will stay in process for 1 month.

(vii) Credit allowed to Debtors $1\frac{1}{2}$ months.

(viii) Credit allowed by Creditors 2 months.

(ix) Lag in payment of wages is $\frac{1}{2}$ month.

(x) 40% of purchases and 20% of sales may be assumed to be made against cash.

(xi) Bank Overdraft ₹2,00,000.

(xii) Cash in hand is expected to be ₹82,000.

(xiii) Production is carried on evenly during the year and wages and overheads accrued in the same way.

——×——