Name : ....

Roll No. : ....

Invigilator's Signature : ....

CS/BBA(H), BIRM, BSCM/SEM-4/BBA-403/2011

2011

FINANCIAL MANAGEMENT — I

Time Allotted : 3 Hours | *Full Marks* : 70

The figures in the margin indicate full marks.

Candidates are required to give their answers in their own words as far as practicable.

GROUP – A

(Multiple Choice Type Questions)

1. Choose the correct alternatives for any *ten* of the following : $10 \times 1 = 10$

   i) A project is financially viable if it's

      a) IRR ≥ WACC (Weighted Average Cost of Capital)

      b) IRR < WACC

      c) NPV < zero

      d) none of these.

ii) EPS of a firm is calculated by

a) EBIT divided by number of shares

b) PAT divided by no. of equity and preference shares

c) PAT minus preference dividend divided by no. of equity shares

d) none of these.

iii) The appropriate objective of an enterprise is

a) maximization of owners wealth

b) maximization of net profits

c) maximization of sales

d) inventory control.

iv) To increase a given present value, discount rate should be adjusted

a) upward (*i.e.* tobe increased)

b) downward

c) none of these

d) can't be determined.

v) Net working capital equals to

a) CA – CL (*i.e.* current asset – current liabilities)

b) CA > CL

c) CA < CL

d) CA + CL.

vi) The dividend irrelevance model was propounded by

a) Walter	b) Gordon

c) Graham and Dodd	d) Modigliani and Miller.

vii) Financial fixed cost means

a) interest on borrowed capital

b) dividend on equity shares

c) transfer to reserve

d) income tax.

viii) Which of the following is regarded as a tax saving instrument of financial management ?

a) Depreciation	b) Income tax

c) Dividend	d) Interest.

ix) The financial leverage indicates

a) EPS to changes in EBIT

b) EBIT to changes in sales

c) production to changes in sales

d) impact of changes in sales on EBIT.

x) Which of the following methods do not consider return after pay-off period ?

a) Pay back period

b) Internal rate of return method

c) Average rate of return

d) NPV method.

xi) Which of the following is not a capital structure theory ?

a) NI approach b) NOI approach

c) MM approach d) None of these.

GROUP – B
(Short Answer Type Questions)

Answer any *three* of the following. 3 × 5 = 15

2. Distinguish between profit maximisation and wealth maximisation objectives of the firm.

3. State the operating cycle concept of working capital.

4. How can stability of dividend policy be maintained ?

5. 'Retained earnings have no cost' — is the statement justified ?

6. Explain the relation among fixed cost, risk and leverage.

7. Mention any five importances of capital budgeting.

GROUP – C

(Long Answer Type Questions)

Answer any *three* of the following. $3 \times 15 = 45$

8. a) Explain leverage.

b) Distinguish between financial leverage and operating leverage.

c) From the following information of Trends Ltd. calculate the degree of operating leverage, financial leverage and combined leverage for each situations *A* and *B* under financial plans I, II and III. Also indicate which of the above plans is most risky and which one is least risky.

Production and sales	1,000 units
Selling price per unit	Rs. 20
Variable cost per unit	Rs. 15
Fixed cost (operating)	
Situation - *A*	Rs. 3,000
Situation - *B*	Rs. 4,000

Capital Structure :

	Plan		
	I	***II***	***III***
	Rs.	***Rs.***	***Rs.***
Equity	7,000	5,000	3,000
10% Loan	3,000	5,000	7,000
	10,000	**10,000**	**10,000**

3 + 3 + 9

9. Total Ltd. has the following capital structure :

	Rs.
Equity share capital (1,00,000 share at per)	10,00,000
12% Pref. share capital (1,00,000 share at per)	10,00,000
Retained earnings	12,00,000
14% non convertible debenture (8,000 at per)	8,00,000
14% term loan	10,00,000
	50,00,000

Other information :

i) The market price per share is Rs. 25, the next expected dividend per share is Rs. 2 and expected to grow at a constant ratio of 8%.

ii) The perference shares are redeemable after 7 years at per and currently quoted at Rs. 75 per share in the stock exchange.

iii) The debentures are redeemable after 6 years at per and their current market quotation is Rs. 90 per debenture.

iv) The tax rate applicable to the firm is 50%.

You are required to compute WACC of the company using proportions on

(a) book value basis and (b) market value basis. 8 + 7

10. Write short notes on any *three* of the following : 3 × 5

a) Capital rationing

b) Capital gearing

c) Profitability index

d) Internal rate of return

e) Operating income

f) Overhead.

11. a) Narrate the situations when a company needs to have capital budgeting decisions.

b) NIVEA Ltd. has a project in which initial investment is Rs. 1,00,000 with scrap value of Rs. 40,000. Working capital requirement of the project is Rs. 1,00,000 out of which only Rs. 75,000 would be realized at the end of the project.

Projected cash inflows from the project are as follows :

Year	***Cash inflows (Rs.)***	
1	30,000	
2	90,000	
3	60,000	
4	50,000	
5	25,000	(Excluding scrap value and realize of working capital)

Cost of capital is 15%.

Disc. Factor @ 15% is as follows :

Year	0	1	2	3	4	5
Disc. Factor	1	0·87 0	0·75 6	0·65 8	0·57 2	0·49 7

You are required to calculate for each project

i) Discounted payback period

ii) Net present value

iii) Profitability index. 5 + (3 + 4 + 3)

12. Eastern Garment Co. Ltd. is a famous manufacturer and exporter of garments to the European countries. The finance manager of the company is preparing its working capital forecast for the next year. After carefully screening all the documents, he collected the following information :

Production during the previous year was 15,00,000 units. The same level of activity is intended to be maintained during the current year.

The expected ratios of cost to selling price are :

Raw materials	40%
Direct wages	20%
Overheads	20%

The raw materials ordinarily remain in store for 3 months before production. Every unit of production remains in the process for 2 months and is assumed to be consisting of 100% raw materials, wages and overheads. Finished goods remain in warehouse for 3 months. Credit allowed by the creditors is 4 months from the date of the delivery of raw materials and credit given to debtors is 3 months from the date of dispatch. The estimated balance of cash to be held Rs. 2,00,000.

Lag in payment of wages : $\frac{1}{2}$ month

Lag in payment of expenses : $\frac{1}{2}$ month

Selling price is Rs. 10 per unit. Both production and sales are in a regular cycle. Relevant assumption may be made.

You have recently joined the company as an assistant finance manager. You are required to prepare the forecast of working capital statement. 15