20/07/23
(1+1+1) System

Y(III)-Financial Mgmt.-H-3.4HA

2023

FINANCIAL MANAGEMENT — HONOURS

Paper : 3.4 HA

(A-34-A)

(Accounting and Finance Group)

Full Marks : 100

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

1. Discuss the functions of financial management. 5

2. Explain the risk-return relationship in the context of financial management. 5

Or,

Why is 'Wealth Maximization' preferred over 'Profit Maximization' as the goal of a firm? 5

3. Discuss the role of debt capital in corporate financing. 5

4. From the following information, compute sales :

DOL = 2; DFL = 4, Interest = ₹ 3,00,000; Contribution = 50% of sales. 5

Or,

What is Operating BEP ? How is it measured ? 2+3

5. Ascertain the compounded value and compounded interest of an amount of ₹ 75,000 at 8% compounded semi-annually for 5 years. 4+1

6. What is Overall Cost of Capital? How is it measured? 2+3

Or,

Lukla Ltd. has 50,000 equity shares of ₹ 100 each, current market price of each being ₹ 150. Earnings for the last year available to the equity shareholders being ₹ 15,00,000.

The earnings are expected to grow @ 8% p.a.

Compute the cost of equity share as per Earnings Growth Model. 5

Group - B

7. From the following information, prepare a statement showing estimated working capital requirement of Lhotse Ltd. :

Projected annual sales 5,200 units

Selling price per unit` 60

Analysis of selling price :

Materials : 40%; Labour : 30%, Overhead : 20%; Profit: 10%

Time lag on an average :

Raw materials in stock 3 weeks

Production process 4 weeks

Credit to debtors 5 weeks

Credit from suppliers 3 weeks

Lag in payment of wages and overhead 2 weeks. Finished goods are in warehouse 2 weeks, cash in hand is expected to be 10% of net working capital. 10

8. What is Working Capital Cycle? What do you mean by Aggressive Working Capital Policy? 5+5

Or,

What are the determinants of working capital? Explain. 10

9. What is Net Present Value? What is Profitability Index? 5+5

Or,

What is Accounting Rate of Return? What is Discounted Pay Back Period? 5+5

10. Torsha Ltd. presently considering two machines for possible purchase. Other information related to the machines are as follows :

	Machine - 1	**Machine - 2**
Purchase price	₹ 50,000	₹ 60,000
Estimated Life	4 years	4 years

Cash flows before depreciation and tax :

	Year - 1	**Year - 2**	**Year - 3**	**Year - 4**
Machine - 1 (₹)	25,000	25,000	25,000	25,000
Machine - 2 (₹)	45,000	19,000	25,000	27,000

Rate of tax is 40%.

Compute net present value of each machine assuming the cost of capital at 8%. Which machine the company should buy?

The present value of ₹ 1 at 8% is as follows :

Y1 = 0.926, Y2 - 0.857, Y3 = 0.794, Y4 = 0.735

(Assume straight line method of Depreciation). 10

11. Manaslu Ltd. has 10,000 equity shares of ₹ 100 each. Its rate of return is 24% and it follows a policy of retaining 50% of its earnings.

(a) If the cost of capital is 18%, calculate the market price per equity share using Gordon's Model of Dividend Policy.

(b) How would the market price change if the D/P Ratio becomes 90% or 10%? 5+5

Or,

What is Overall Cost of Capital? How is it measured? 5+5

12. Using the information given below, compute the Discounted Pay Back Period and comment.

Initial outlay	:	₹ 80,000
Estimated life	:	5 years
Profit after tax :		
End of year 1	:	₹ 6,000
End of year 2	:	₹ 14,000
End of year 3	:	₹ 24,000
End of year 4	:	₹ 16,000
End of year 5	:	Nil

Depreciation has been calculated under straight line method. The cost of capital may be taken at 20% p.a. and the P.V. of ₹ 1 at 20% p.a. is given below :

Year :	1	2	3	4	5
P.V. factor :	0.83	0.69	0.58	0.48	0.40

10

13. What do you mean by financial control? Explain the steps in financial control. 5+5