Semester 6 (FM 2023)
Honours

Y(6th Sm.)-Financial Management-H/DSE-6.2AH/CBCS

2023

FINANCIAL MANAGEMENT — HONOURS

Paper : DSE-6.2AH

Full Marks : 80

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. Briefly discuss the role of a Chief Financial Officer (CFO) of a firm. 5

Or,

Explain the limitations of 'profit maximisation' as the goal of financial management. 5

2. Mr. Dutta borrows ₹ 10,00,000 to buy a house in New town. He wants to repay this amount in 10 equal instalment. The loan is taken @10% interest p.a. What is the amount of each annual instalment? [$PVIFA_{(10\%,10)} = 6.145$] 5

3. In receivable management discuss the effect of lengthening and shortening of the credit period of debtors and its impact on profitability of the firm. 5

Or,

Explain matching policy in the context of financing working capital. 5

4. Cost of plant ₹ 12 crore. Economic life of the plant is 10 years. Salvage value is estimated as ₹ 25 lakh. Pre-tax-Profit before depreciation is expected to be ₹ 3.8 crore for the first year, which will increase by 10 per cent every year. Find out the cash inflow from the plant for first 2 years considering 30% corporate tax rate. Tax rule states 10% rate of depreciation under reducing balance method. 5

Group - B

5. (a) Two companies Vivek Ltd. and Ananda Ltd are from same industry. From the following details you are required to compute weighted average cost of capital of both the companies :

	Vivek Ltd.	Ananda Ltd.
Equity share capital (₹ 10 each)	₹ 4,00,000	₹ 3,00,000
Market value per share	₹ 15	₹ 20
Dividend per share	₹ 2.70	₹ 4
10% Debentures (₹ 100 each)	Nil	₹ 1,00,000
Market Value per debenture	NA	₹ 125

[Ignore growth in dividend; assume income tax rate is 30%]

(b) Both the companies are from same industry and having same capital investment, then why they are having different weighted average cost of capital? 8+2

6. (a) Briefly explain the concept of 'Trading on Equity' in financial leverage analysis. 4

(b) Details of a company for the year ended 31.3.2023 are as follows :

Sales	₹ 90 Lakhs
Profit Volume Ratio	30%
Fixed Cost (excluding interest)	₹ 10 lakhs
10% Debt	₹ 54 Lakhs
Equity Share Capital of ₹ 10 each	₹ 75 lakhs
Income Tax rate	40%
ROCE (Pre Tax)	13.18%

Required :

(i) Calculate operating and combined leverage of the company.

(ii) Calculate percentage change in EBIT, if sales increases by 10%. 4+2

7. From the following information furnished by Hirani Ltd. prepare the working capital required for the next financial year :

(i) Expected monthly sales 4000 units @ ₹ 50 each. The raw material cost is 40% of sales price and direct wages is 30% of sales price. Expected overhead ₹ 8000 per week.

(ii) Finished goods will be kept for half a month.

(iii) Expected raw material closing slock ₹ 60,000

(iv) Processing time 2 weeks

(v) Credit allowed to customers for 35 days, credit allowed by suppliers for 28 days

(vi) Lag in payment of overhead 2 weeks

(vii) Cash is expected to be 20% of total working capital requirement.

(viii) Hirani Ltd. values debtors at sales value.

[Make necessary assumptions] 10

Or,

(a) Explain how you will compute the working capital cycle.

(b) Distinguish between temporary and permanent working capital. 5+5

8. Rwittik Ltd. is evaluating two independent and indivisible projects, Megh and Tara with following details:

		Cash inflows (₹)					
Project	**Investment (₹)**	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**
Megh	100000	35780	37850	38940	42560	33500	32600
Tara	100000	44010	46560	47900	52350	41200	40100

(a) Comment on the selection of the project on the basis of net present value considering 8% discounting rate.

(b) Will your choice remain same, if Project Tara requires an additional maintenance cost of ₹ 20,000 at the end of every second year? 6+4

Year	1	2	3	4	5	6
PV for Re.1 at 8%	0.926	0.857	0.794	0.735	0.681	0.630

Or,

(a) Define internal rate of return (IRR) and discuss the utility of IRR approach for investment decision making.

(b) What do you mean by profitability Index and how it is used in capital rationing? (2+3)+(2+3)

9. Two companies Bimal Ltd. and Adoor Ltd. are from same industry, having same cost of capital of 20%. Rate of return of the companies are given as follows :

	Bimal Ltd	Adoor Ltd
Rate of Return	25%	20%

Both of them earned the EPS of ₹ 10 each. Determine the price of shares of both the companies under Gordon Model when the dividend pay-out ratio is (i) 75% and (ii) 50%. Also comment on your answer. 3+3+4

Or,

(a) Briefly discuss the factors to be considered before framing the dividend policy of a company.

(b) What are the assumptions of Walter model of dividend policy? 5+5

10. (a) What do you understand by 'conservative' and 'aggressive' policies of financing working capital?

(b) What are the merits and demerits of Payback period method of capital expenditure decisions? 5+5