2022
CBCS

FINANCIAL MANAGEMENT — General

E. DSE-6.2A (FM-86)



১৫। X Ltd. is contemplating replacement of one of its machines which has become outdated and inefficient. Its financial manager has prepared a report of two possible replacement machines. The details of each machine are as follows :

| | Machine 1 | Machine 2 |
|---|---|---|
| Initial Investment | ₹ 15,00,000 | ₹ 16,00,000 |
| Estimated useful life | 5 years | 5 years |
| Residual Value | ₹ 1,20,000 | ₹ 1,00,000 |
| Contribution per annum | ₹ 11,60,000 | ₹ 12,00,000 |
| Fixed operating costs per annum | ₹ 7,60,000 | ₹ 6,90,000 |

Depreciation has been calculated by straight line method and has been included in fixed operating costs. The expected cost of capital for this project is assumed as 12% p.a.

Required : Which machine is more beneficial.

| Year | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| PV@12% | 0.893 | 0.797 | 0.712 | 0.636 | 0.567 |

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[English Version]

*The figures in the margin indicate full marks.*

**Group - A**

Answer ***any four*** questions.

1. Discuss the importance of financial management. 5

2. Give an idea about 'Wealth maximisation' objective of financial management. 5

3. Mr. M is offered either to receive ₹ 10,000 three years from now or ₹ 14,000 five years from now. Which one Mr. M will accept? Assume rate of discount is 10%.

   [Given present value of ₹ 1 at 10% are 0.751 and 0.621 for 3rd and 5th year respectively.] 5

4. Explain 'working capital cycle'. 5

5. Coltex Ltd. issue a new 10% Debentures of ₹ 1,000 each to be redeemed at par. However, it will involve flotation cost of 4%. The company is in the 35% tax bracket. You are required to ascertain the cost of debt. 5

6. The Iron Ore Ltd. consists of 4000 equity shares of ₹ 10 each. Currently these shares are quoted in the market at ₹ 200 each. The earnings available to the equity shareholders at the end of the period ₹ 2,40,000. The earnings are expected to grow @ 7%. What is the cost of equity capital? 5

**Please Turn Over**

## Group - B

Answer *any six* questions.

7. (a) Write a short note on Marginal Cost of Capital.

   (b) Differentiate between Operating Leverage and Financial Leverage. 5+5

8. Calculate the degree of operating leverage, degree of financial leverage and combined leverage from the following data :

   Sales 100000 units @ ₹ 2 per unit = ₹ 2,00,000; Variable cost per unit @ ₹ 0.70; Fixed cost = ₹ 1,00,000; Interest charges ₹ 3,000. 10

9. (a) Explain 'Trading on Equity' with example.

   (b) What do you mean by Optimum Capital Structure? 5+5

10. ABC Ltd. sells its products on a gross profit of 20% on sales. The following information is extracted from its annual accounts for the current year ended 31st March, 2021.

| | ₹ |
|---|---|
| Sales at 3 months credit | 40,00,000 |
| Raw materials | 12,00,000 |
| Wages paid-average time lag 15 days | 9,60,000 |
| Manufacturing expenses paid (one month arrear) | 12,00,000 |
| Administration expenses paid (one month arrear) | 4,80,000 |
| Sales promotion expenses (payable half yearly in advance) | 2,00,000 |

The company enjoys one month's credit from the suppliers of raw materials and maintains a 2 months stock of raw materials and one-and-half months stock of finished goods. The cash balance is maintained at ₹ 1,00,000 as precautionary measure.

Assuming 10% margin, find out the working capital requirement of ABC Ltd. 10

11. Write short notes on : 5+5

    (a) Commercial Paper (b) Trade Credit as a source of short-term capital.

12. Raj and Co. Ltd. has an investment project, the particulars of which are given below :

    Cost of the Asset = ₹ 1,80,000

    Installation charges = ₹ 20,000

    Effective working life = 10 years

    Estimated scrap value = ₹ 40,000

    Annual profit before depreciation = ₹ 56,000

    Depreciation is charged under straight line method and the rate of tax is given as 40%. Compute the pay-back period of the project and state its acceptability. 10

13. (a) Why is discounted cash flow method superior to non-discounted cash flow method in evaluation of an investment project?

(b) What is capital rationing? 5+5

14. The following figures are collected from the annual report of ABC Ltd.

| | |
|---|---|
| Net Profit | ₹ 60 Lakhs |
| Outstanding 12% Preference Shares | ₹ 200 Lakhs |
| Number of equity shares | 300000 |
| Return on Investment | 20% |
| Cost of Capital (Ke) | 16% |

Compute the amount of dividend to keep the share price at ₹ 84 using Walter's Model. 10

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Required : Which machine is more beneficial.

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