2022

FINANCIAL MANAGEMENT — HONOURS

Paper : DSE-6.2A

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. Explain the inter-relationship between financing decision, investment decision and dividend decision. 5

Or,

Discuss the significance of wealth maximisation. 5

2. Ms. B is considering two investment proposals for an amount of ₹ 5,000 with following details :

Return from Investment (₹.)							
Proposal	Maturity Period	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
D	5 years	600	600	600	600	600	N.A.
G	6 years	NIL	NIL	2400	NIL	NIL	800
PV for Re. 1 at 10%		0.909	0.826	0.751	0.683	0.621	0.564

Suggest her for selecting the better option considering 10% discounting rate. 5

3. Briefly discuss the different strategies of financing current assets with graphical presentation. 5

Or,

What are the various sources of finance to meet working capital requirement? 5

4. Briefly explain how the risk-return trade off play a significant role in the financial decision making. 5

Or,

Explain the significance of time value of money in financial decision making. Calculate present value of a 5 year annuity of ₹ 20,000 at a discount rate 10%. 3+2

5. Cost of plant ₹ 12.25 crore. Economic life of the plant is 6 years. Salvage value is estimated as ₹ 25 Lakh. Pre-tax Profit before depreciation is expected to be ₹ 3.4 crore for the first year. Find out the cash inflow from the plant considering 30% corporate tax rate. Straight line method of depreciation is accepted. 5

Or,

Define independent projects and mutually exclusive projects. Briefly discuss their selection criteria based on NPV. 2+3

6. The initial outlay for a project of economic life 6 years is ₹ 72,000. The cash flow after tax from this project for the first year is ₹ 19,500 and it increased steadily by ₹ 6,000 per annum. Calculate payback period. 5

Group - B

7. Explain the concept of cost of capital. What do you mean by marginal cost of capital? Why should we consider marginal cost of capital rather than weighted average cost of capital while evaluating a new project? 3+2+5

Or,

The existing capital structure of X Ltd. is as follows :

Equity Share Capital and retained earning (Ke = 17%)	₹ 5,00,000
14% Preference Share Capital	₹ 2,00,000
10% Debt	₹ 3,00,000

The company wishes to implement the expansion of the plant with capital outlay of ₹ 5,00,000. Besides using the available retained earning of ₹ 1,00,000, the balance additional fund will be raised as follows :

10% Debt	₹ 3,00,000
14% Preference Share Capital	₹ 1,00,000

Corporate tax rate is 20%.

Assuming that specific cost of different components of capital remaining same, you are required to

(a) Calculate weighted average cost of capital after the issue of fresh securities;

(b) Calculate the marginal cost of capital, and

(c) Comment on the acceptance of the expansion plan if it is expected to give a return of 12%. 4+4+2

8. From the following information presented by a manufacturing company, prepare a statement showing working capital requirement for the coming year.

Expected monthly sales of 64,000 units at ₹ 20 per unit. The anticipated ratios of selling price are :

Raw material — 40%

Labour — 30%

Budgeted overhead ₹ 32,000 per week.

Overhead expenses include depreciation of ₹ 8,000 per week. Planned stock will include raw-materials for ₹ 1,92,000 and 32,000 units of finished goods.

Material will stay in process 2 weeks

Credit allowed to debtors is 4 weeks

Credit allowed by creditors 5 weeks

20% of sales may be assumed to be made against cash. Cash and Bank is to be maintained at 10% of the working capital.

Assume that production is carried on evenly throughout the year and wages and overhead accrue similarly. 10

Or,

What do you understand by working capital cycle? State the factors on which the duration of working capital cycle depends. Explain the significance of working capital cycle in working capital management. 3+3+4

9. The selected financial data for companies A and B for the current year ended March 31, 2022 are as follows :

Particulars	Company A	Company B
Variable cost as a percentage of Sales	60	75
Interest (₹)	500	800
Degree of Operating Leverage	4	5
Degree of Financial Leverage	2	3
Income tax rate	0.30	0.30

(a) Prepare income statement of Company A and Company B.

(b) Comment on the risks of the two firms. 8+2

Or,

(a) What do you mean by optimum capital structure? What are its features?

(b) Explain the net income approach to the capital structure theory. 5+5

10. B. Bakshi Co is evaluating two independent and indivisible projects SB and AKB with following details :

		Post tax cash inflows (₹.)					
Project	Investment(₹)	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
SB	1,50,700	36,800	38,700	44,700	50,100	41,500	55,000
AKB	74,800	15,900	28,200	30,500	32,100	37,800	NIL

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

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

(b) Review your decision under profitability index approach and comment. 7+3

Or,

(a) Discuss the demerits of payback period approach.

(b) Discuss the effect of income tax, salvage value of assets and depreciation on cash inflows of a project under consideration. 4+6

11. P. Mitter Ltd. is having cost of capital 10 per cent and return on investment 12 per cent. The company earned ₹ 20 as profit per share and declared 30% dividend.

(a) Calculate the market price of equity share under Walter's model.

(b) To increase the market price per share, the management is willing to increase the dividend pay-out ratio in the next financial year, but the CFO Mr. Tapesh has opposed such a decision. Give your opinion in this matter. 5+5

Or,

(a) Discuss the pros and cons of scrip dividend.

(b) Differentiate between constant dividend rate policy and constant dividend pay-out policy with diagram. 4+6