

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? 5
[$PVIFA_{(10\%,10)} = 6.145$]

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%]

Please Turn Over

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

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

Project	Investment (₹)	Cash inflows (₹)					
		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. 8%
- (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