WEST BENGAL STATE UNIVERSITY

B.Com. Honours 6th Semester Examination, 2021

FACACOR13T-B.COM. (CC13)

FINANCIAL MANAGEMENT

Time Allotted: 2 Hours Full Marks: 50

The figures in the margin indicate full marks.
Candidates should answer in their own words and adhere to the word limit as practicable.

GROUP-A

Answer any *two* questions from the following 10×2 = 20

1. (a) Do you agree that money has time value? State reasons for your answer. 5+3+2

   (b) Would you rather receive Rs. 11,000 today or Rs. 19,000 five years from now, if your discount rate is 10%?

   (c) Discounting factor at 9% rate for 1 year is given to be 0.917. What does this mean?

2. (a) Chibo Ltd. is planning to invest in a project requiring an initial cash outflow of Rs. 5,50,000 and expected to generate cash inflows as follows: 6+4

Year	Annual Cash Inflows (Rs.)
1	90,000
2	1,80,000
3	2,00,000
4	1,20,000
5	80,000

   Compute payback period for the project.

   (b) State any two merits and two demerits of the payback period method as a tool to evaluate capital expenditure decisions.

3. (a) Briefly state the importance of cost of capital in finance. 6+4

   (b) Sad Song Ltd. issued 1,00,000, 11% Debentures of Rs. 100 each at 5% discount during July 2021. The debentures will be redeemed at par during July 2026. Compute the cost of debentures assuming corporate tax rate @ 35%.

4. (a) Briefly explain the concept of capital rationing. 5+5

   (b) Find out the future value of an annuity of Rs. 10,000 made annually for 5 years at an interest rate of 12% p.a. compounded annually.

5. (a) What do you mean by optimum capital structure? 3+7

(b) Calculate the level of Earnings before Interest and Taxes (EBIT) at which the EPS indifference point between the following financing alternatives will occur.

Case I: Equity share capital of Rs. 6,00,000 and 12% debenture of Rs. 4,00,000

Case II: Equity share capital of Rs. 4,00,000, 14% preference share capital of Rs. 2,00,000 and 12% debenture of Rs. 4,00,000.

Assume the corporate tax rate is 30% and equity share par value is Rs. 10 in each case.

6. Write notes on:

(a) Operating Cycle 5

(b) Dividend Policies 5

GROUP-B

Answer any *two* questions from the following 15×2 = 30

7. (a) Discuss the role of finance manager to achieve the value maximization objective of firm. 10+5

(b) Explain how risk and return are connected with one another.

8. Right Ltd. has the following book value capital structure: 15

Equity Share of Rs. 10 each fully paid-up	Rs. 20 Lakhs
12% Preference Share of Rs. 100 each fully paid-up	Rs. 10 Lakhs
Retained Earnings	Rs. 40 Lakhs
10% Debentures of Rs. 100 each	Rs. 30 Lakhs

Other information:

(i) Equity shares are currently selling at Rs. 127. Dividend expected next year on equity shares is Rs. 10 per share. Annual growth rate in dividend is 6%. Floatation cost Rs. 2 per share.

(ii) Preference shares redeemable at par after 5 years is currently selling at Rs. 130 per share.

(iii) Debentures redeemable at par after 10 years are selling at Rs. 110 per debenture.

You are required to compute the weighted average cost of capital using (a) Book Value Proportions and (b) Market Value Proportions. Corporate tax rate is 30%.

9. (a) What do you mean by financial risk? How is it measured? 5+10

(b) The Kalimpong Tea Estate Company's income statement for 2020-21 is as follows:

KALIMPONG TEA ESTATE COMPANY

Income Statement

For the Year Ended March 31, 2021

	Rs.
Sales (1,000 boxes at Rs. 300 each)	3,00,000
Less: Variable costs @ Rs. 150 each	1,50,000
Fixed costs	80,000
Earnings before interest and taxes	70,000
Interest expense	25,000
Earnings before taxes	45,000
Income tax @ 30%	13,500
Earnings after taxes	31,500

Given this income statement, compute the following:

(i) Degree of operating leverage and comment;

(ii) Degree of financial leverage and comment;

(iii) Degree of combined leverage and comment;

(iv) If sales increase by 10%, show its impact on the company's EPS.

10. Topsis Ltd. is considering investing in a project. The expected original investment in the project will be Rs. 3,00,000. Life of the project will be 5 years with no salvage value. The expected profit after depreciation but before tax during the life of the project will be as following: 8+5+2

Year	Profit (Rs.)
1	60,000
2	70,000
3	80,000
4	40,000
5	25,000

The project will be depreciated at the rate of 20% on straight line method. The company is subjected to 30% tax rate.

Required:

(i) Calculate net present value, if cost of capital is 15%;

(ii) Calculate internal rate of return; and

(iii) Comment on the acceptability of the project.

Discount Rate	Year-1	Year-2	Year-3	Year-4	Year-5
15%	0.870	0.756	0.658	0.572	0.497
18%	0.848	0.718	0.609	0.516	0.437
20%	0.833	0.694	0.579	0.482	0.402
24%	0.807	0.650	0.525	0.423	0.341

11. STAR Private Ltd. plans to sell 48,000 units next year. The expected cost of goods sold is as follows: 15

	Particulars in Rs. (Per unit)
Raw Materials	100
Manufacturing Expenses	30
Selling, Administration and Financial Expenses	30
Selling price	200

The duration at various stages of the operating cycle is expected to be as follows:

Raw Materials stage	2 months
Work-in-process stage	1 month
Finished goods stage	2 weeks
Debtor's stage	2 months

WIP is 25% complete with respect to manufacturing expenses.

Assuming monthly sales level of 4,000 units:

(i) Calculate the investment in various current assets; and

(ii) Estimate the gross working capital requirement if the desired cash balance is 5% of the gross working capital requirements.

12.(a) Discuss any four factors affecting the dividend policy of a new company. 8+7

(b) A company has a total investment of Rs. 500,000 in assets, and 50,000 outstanding equity shares at Rs. 10 per share (par value). It earns a rate of 15% on its investment, and has a policy of retaining 50% of the earnings. If the appropriate discount rate of the firm is 10%, determine the price of its share using Gordon's model. What shall happen to the price of the share if the company increases the dividend payout ratio?

N.B. : *Students have to complete submission of their Answer Scripts through E-mail / Whatsapp to their own respective colleges on the same day / date of examination within 1 hour after end of exam. University / College authorities will not be held responsible for wrong submission (at in proper address). Students are strongly advised not to submit multiple copies of the same answer script.*

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