

[This question paper contains 16 printed pages.]

Your Roll No.....

Sr. No. of Question Paper : 3066

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Unique Paper Code : 52417505

Name of the Paper : Fundamentals of Financial
Management

Name of the Course : B.Com. (P)

Semester : V

Duration : 3 Hours

Maximum Marks : 75

Instructions for Candidates

1. Write your Roll No. on the top immediately on receipt of this question paper.
2. Attempt all questions.
3. All questions carry equal marks.
4. Use of Simple Calculator is permitted.
5. Students are allowed to use present value and future value tables.
6. Answers may be written either in English or Hindi; but the same medium should be used throughout the paper.

P.T.O.

छात्रों के लिए निर्देश

1. इस प्रश्न-पत्र के मिलते ही ऊपर दिए गए निर्धारित स्थान पर अपना अनुक्रमांक लिखिए।
2. सभी प्रश्नों के उत्तर दीजिए।
3. सभी प्रश्नों के अंक समान हैं।
4. साधारण कैलकुलेटर के उपयोग की अनुमति है।
5. छात्रों को वर्तमान मूल्य और भविष्य मूल्य तालिकाओं का उपयोग करने की अनुमति है।
6. इस प्रश्न-पत्र का उत्तर अंग्रेजी या हिंदी किसी एक भाषा में दीजिए, लेकिन सभी उत्तरों का माध्यम एक ही होना चाहिए।

1. (a) "Wealth maximization is a better criterion than profit maximization" Do you agree? Explain. (8)

(b) Explain the Time Value of Money Concept. What are the factors affecting the Time Value of Money? (7)

OR

(a) "Financial Management has expanded in its scope during last few decades". Examine the modern approach to the scope of financial management. (8)

- (b) The cost of the plant is ₹10 Lacs. It has an estimated life of 5 Years after which it would be disposed off (Scrap Value – Nil). Profit before Depreciation, Interest, and Taxes (PBIT) is estimated to be ₹3.50 Lacs p.a. Find out the yearly cash flow from the plant (given the tax rate @ 30%). (7)

2. (a) B Ltd is considering two proposals I and II with the following details :

Items	Year	Proposal I	Proposal II
Investment		₹ 19,000	₹ 40,000
Cash Inflows	Year 1	₹ 8,000	₹ 16,000
	Year 2	₹ 8,000	₹ 16,000
	Year 3	₹ 9,000	₹ 24,000

You are required to suggest the most attractive proposal based on the NPV method considering that future incomes are discounted at 12%. Also, find the IRR of the two proposals. (8)

- (b) What is meant by capital budgeting decisions? What are its main features? Why do NPV and IRR techniques of evaluation of capital budgeting lead to conflicting project ranking? (7)

OR

(a) A firm whose cost of capital is 10% is considering two mutually exclusive projects A and B, the details of which are as follows :

Items	Year	Project A	Project B
Cost	0	₹ 50,000	₹ 50,000
Cash Inflows	1	₹ 5,000	₹ 25,000
	2	₹ 10,000	₹ 20,000
	3	₹ 15,000	₹ 10,000
	4	₹ 22,500	₹ 5,000
	5	₹ 30,000	₹ 5,000

Compute the Pay Back Period, Net Present Value at 10%, Profitability Index, and Internal Rate of Return for two projects. Which project you would recommend out of the two and why? (15)

3. (a) A Firm sells its product at ₹10 per Unit. Variable cost Ratio is 70%. Fixed Cost is ₹10,000. Present sales are 10,000 units. Calculate the following :

- (i) Degree of Operating Leverage.
- (ii) New EBIT if sales increase by 40%.
- (iii) New EBIT if sales fall by 25%. (8)

- (b) X Ltd. and Y Ltd. are in the same risk class and are identical in all respects except that company X Ltd uses debt while company Y Ltd doesn't use debt. The levered firm, X Ltd. has ₹9,00,000 Debentures carrying a 10% rate of interest. Both the firms earn 20% operating profit on total assets of ₹15 lakhs. The equity capitalization rate (k_e) is 15%. You are required to calculate the value of firms X Ltd and Y Ltd using the Net Income (NI) Approach. Also, calculate the overall cost of capital (k_o) of both the firms X Ltd and Y Ltd. (7)

OR

- (a) Manoj Traders Ltd has the following capital Structure :

Equity Shares (2,00,000)	40,00,000
10% Preference Shares	10,00,000
10% Debentures	<u>30,00,000</u>
	<u>80,00,000</u>

The share of company currently sells at ₹25. It is expected that the company will pay a dividend of ₹2 per share which will grow at 7% forever. Assume a 30% tax rate. You are required to compute a weighted average cost of capital on existing capital structure. (8)

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- (b) "The cost of debt is generally lower than the cost of equity." Explain. Also, explain various methods for calculating the cost of debt. (7)

4. (a) The details of XYZ Ltd are as under :

Production of the Year: 60,000 units

Finished Goods Inventory: 3 Months

Raw Material Inventory: 2 Months Consumption

Production Process : 1 Month

Credit allowed by Creditors: 2 Months

Credit allowed to Debtors: 3 Months

Selling Price per unit ₹ 50 per unit

Raw Material: 50% of the selling price.

Direct Wages: 10% of the selling price.

Overheads: 20% of the selling price.

There is regular production on the sales cycle, and wages and overheads accrue evenly. Wages are paid in the next month of accrual. Material is used at the beginning of the production cycle. Work-in-process involves the use of the full unit of raw materials at the beginning of the

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manufacturing process and other conversion costs equivalent to 50%. You are required to find out the working capital of XYZ Limited. (8)

(b) Explain the major determinants of the working capital needs of a business firm. (7)

OR

(a) The following data is of Frank Ltd.:

Existing Capital Structure: 10 lakh Equity Shares of ₹10 each, Tax Rate is 50%.

Frank Ltd plans to raise additional capital of ₹100 lakhs for financing an expansion project. It is evaluating two alternative plans:

(i) Issue of 10,00,000 equity shares of ₹10 each and

(ii) Issue of ₹100 lakh debentures carrying a 14% interest rate. You are required to calculate the indifference level of EBIT.

(8)

(b) The management of A Ltd is considering changing its present credit policy the details of options are given below :

Credit Policy	Present	POLICY I	POLICY II	POLICY III
Sales	₹1,00,000	₹1,12,000	₹1,20,000	₹1,24,000
Variable Cost as a % of Sales	80%	80%	80%	80%
Fixed Cost	₹12,000	₹12,000	₹12,000	₹12,000
Average Collection Period.	30 days	45 days	60 days	75 days

The firm's rate of Investment is 20%. Assuming 360 days in a year Advise which option is best.

(7)

5. (a) The following are the details regarding A Ltd, B Ltd and C Ltd :

A Ltd	B Ltd	C Ltd
$r = 15\%$	$r = 5\%$	$R = 10\%$
$K_e = 10\%$	$K_e = 10\%$	$K_e = 10\%$
$E = ₹8$	$E = ₹8$	$E = ₹8$

Calculate the value of an equity share of each of these companies by applying Walter's formula when the dividend payout ratio is (a) 25% (b) 50% (c) 75%. What conclusions would you draw?

(8)

- (b) Explain the Gordon's model of dividends. What are its assumptions? Does the value of the firm is affected by the dividend policy as per this model? (7)

OR

Write short notes on any three of the following :

- (i) ABC analysis of inventory management.
- (ii) EBIT-EPS Analysis.
- (iii) EOQ Model
- (iv) Difference between Operating and Financial Leverage.
- (v) Cash Budget. (15)

1. (क) "लाभ अधिकतमकरण की तुलना में धन अधिकतमकरण एक बेहतर मानदंड है" क्या आप सहमत हैं? स्पष्ट कीजिए। (8)

- (ख) मुद्रा की अवधारणा के समय मूल्य को स्पष्ट कीजिए। मुद्रा के समय मूल्य को प्रभावित करने वाले कारक क्या होते हैं? (7)

अथवा