Q.P. Code:00003580

FINANCIAL MANAGEMENT

[Time: 3.00 Hrs.] **[Marks: 80]**

N.B.:
1) Any 3 Questions out from Q2 to Q5 to be attempted
2) Question No.1 is compulsory.
3) **In all 4 questions to be attempted**.
4) All questions carry equal marks.
5) **Answer to each new question to be started on a fresh page.**
6) **Figures in brackets on the right-hand side indicate full marks**.
7) Question paper contains 05 Pages

Q1 A. Fill in the blanks (10 marks)

1. A _____________ system facilitates the flow of funds
2. Industrial Finance Corporation of India was established in ___________.
3. The money market is a wholesale _____________ market for low risk.
4. RBI is the _________ and Supervisor of Banking Systems
5. Not less than ________________ is to be offered to the public
6. SEBI has powers for stopping _____________ in capital market
7. Finance is the procurement of ________________.
8. Treasury Bills are short term up to ____________.
9. Investors pay the specified ____________ for an amount of shares
10. The RBI has powers to appoint additional ____________ in banks as well.

Q1B True or False (10 Marks)

1. A Central Board of Directors with 20 members consisting of the Governor and the Deputy Governors governs RBI
2. The RBI has no powers to appoint additional directors in banks as well.
3. Capital budgeting is same as financing decision
4. Both NPV and IRR can not be zero.
5. A financial system does not facilitates the flow of funds
6. Hybrid instruments have only the features of debenture
7. Private companies and the government both sell bonds to the general public
8. Risk Management is an essential component of a growing economy.
9. Certificates or Deposit is a negotiable money market instrument
10. RBI is the apex of the financial system, established in 1932 and nationalized in 1936

Q2A. (10 Marks)

New Projects Ltd. is evaluating 3 projects, P-I, P-II, P-III. Following information is available in respect of these projects:

	P-I	**P-II**	**P-III**
Cost	` 15,00,000	` 11,00,000	` 19,00,000
Inflows-Year 1	6,00,000	6,00,000	4,00,000
Year 2	6,00,000	4,00,000	6,00,000
Year 3	6,00,000	5,00,000	8,00,000
Year 4	6,00,000	2,00,000	12,00,000

Discounting Factor is given below

Year / Rate	Year 1	Year 2	Year 3	Year 4
13 %	0.885	0.783	0.693	0.613
15 %	0.870	0.756	0.658	0.572
19 %	0.840	0.706	0.593	0.499

Required:

(i) Find out the NPV if the discounting factor of P1 – 19 %, P II – 15 % & P III – 13 %

(ii) Which project is the best?

Q2B. (10 marks)

The following details are provided by the GPS Limited:

Particulars	**(₹)**
Equity Share Capital	65,00,000
12% Preference Share Capital	12,00,000
15% Redeemable Debentures	20,00,000
10% Convertible Debentures	8,00,000

The cost of equity capital for the company is 16.30% and income tax rate for the company is 30%.

You are required to calculate the Weighted Average Cost of Capital (WACC) of the company.

Q3A (10 marks)

Best of Luck Ltd., a profit making company, has a paid-up capital of ` 100 lakhs consisting of 10 lakhs ordinary shares of ` 10 each. Currently, it is earning an annual pre-tax profit of ` 60 lakhs. The company's shares are listed and are quoted in the range of ` 50 to ` 80. The management wants to diversify production and has approved a project which will cost ` 50 lakhs and which is expected to yield a pre-tax income of ` 40 lakhs per annum. To raise this additional capital, the following options are under consideration of the management:

(a) To issue equity share capital for the entire additional amount. It is expectedthat the new shares (face value of ` 10) can be sold at a premium of ` 15.

(b) To issue 16% non-convertible debentures of ` 100 each for the entire amount.

(c) To issue equity capital for ` 25 lakhs (face value of ` 10) and 16% non- convertible debentures for the balance amount. In this case, the company can issue shares at a premium of ` 40 each.

ADVISE which option is the most suitable to raise the additional capital, keeping in mind that the management wants to maximize the earnings per share to maintainits goodwill. The company is paying income tax at 50%.

Q3B (10 Marks)

Calculate the operating leverage, financial leverage and combined leveragefrom the following data under Situation I and II and Financial Plan A and B:

Installed Capacity	4,000 units
Actual Production and Sales	75% of the Capacity
Selling Price	` 30 Per Unit
Variable Cost	` 15 Per Unit

Fixed Cost:

Under Situation-I	` 15,000
Under Situation-II	` 20,000

Capital Structure:

	Financial Plan	
	A (`)	**B (`)**
Equity	10,000	15,000
Debt (Rate of Interest at 20%)	10,000	5,000
	20,000	20,000

Q4A (10 Marks)

Aneja Limited, a newly formed company, has applied to a commercial bank for the first time for financing its working capital requirements. The following information is available about the projections for the current year:

Estimated level of activity: 1,04,000 completed units of production plus 4,000 units of work-in-progress. Based on the above activity, estimated cost per unit is:

Raw material	` 80 per unit
Direct wages	` 30 per unit
Overheads (exclusive of depreciation)	` 60 per unit
Total cost	` 170 per unit
Selling price	` 200 per unit

Raw materials in stock: Average 4 weeks consumption, work-in-progress (assume 50% completion stage in respect of conversion cost) (materials issued at the start of the processing).

Finished goods in stock	8,000 units
Credit allowed by suppliers	Average 4 weeks
Credit allowed to debtors/receivables	Average 8 weeks
Lag in payment of wages	Average 1.5 weeks

Cash at banks (for smooth operation) is expected to be ` 25,000.

Assume that production is carried on evenly throughout the year (52 weeks) and wages and overheads accrue similarly. All sales are on credit basis only.

Q4B (5 Marks)

Mr. Tiwari has recently set up a restaurant in a prominent shopping complex. His business is good but because of heavy personal withdrawals, he is facing liquidity problem. To get a better handle over his cash flows, he requests you to prepare a cash budget for the next quarter, January through March, for him. He has provided you with the following information :

i) Sales are expected to be as follows. (All sales are cash sales) :

Jan. Rs. 50,000

Feb. Rs. 55,000

Mar. Rs. 60,000

ii) His estimated purchases are as follows :

Jan. Rs. 20,000

Feb. Rs. 22,000

Mar. Rs. 25,000

Payments for purchases will be made after a lag of one month.

Outstanding on account of purchases in Dec. last are Rs. 22,000.

iii) The rent per month is Rs. 5,000 and his personal withdrawals per month are Rs. 5,000.

iv) Salaries and other expenses payable in cash are expected to be as follows :

Jan. Rs. 15,000

Feb. Rs. 18,000

Mar. Rs. 20,000

v) He plans to buy furniture worth Rs. 25,000 on cash payment in February.

vi) The cash balance at present is Rs. 5,000. His target cash balance is, however, Rs. 8,000.

What will be the surplus / deficit of cash in relation to his target cash balance?

Q5 Answer the following short notes (Any 4 out of 5) (20 Marks)

1. Money Market
2. Evaluation of Credit Policy
3. Cost of Equity Share Capital
4. Asset Based Financial Intermediaries
5. Modigliani Miller Approach