

FINANCIAL MANAGEMENT

[Time: 3.00 Hrs.]

[Marks: 80]

N.B. (1) Q.1 is Compulsory

(2) Attempt any THREE questions from the Q. No.2 to Q. No.5

Q.1A) State whether the following statements are True or False.

[10]

1. In Money market funds are available for a period ranging from a single day up to a year.
2. Forex market deals with the multicurrency.
3. RBI acts as a banker to the scheduled banks.
4. Treasury Bills are short term maximum up to only 90 days.
5. Capital budgeting is same as investment decision.
6. ARR is a Discounted cash flow technique.
7. SEBI has powers to penalize companies violating the listing norms.
8. RBI is an issuer of currency in India.
9. Capital structure is the mix of firm's capital.
10. Cost of capital means the overall cost of capital of a firm.

Q. 1B) Match the following

[10]

A Group	B Group
P/E Ratio	Excess of total PVCI over total PVCO
Cost of Debt	Rate of return at which NPV = 0
Operating Leverage	Ratio of total PVCI over total PVCO
Financial Leverage	Annual yield earned on the Capital Investment
Combined Leverage	Period to recover the initial investment cost
NPV	the ratio of Earning before interest and tax (EBIT) & Earning before Tax (EBT)
Profitability Index	the ratio of Contribution and Earning before tax. (EBT)
Payback Period	the ratio of contribution and earnings before interest & tax (EBIT)
Internal Rate of Return (IRR)	Ratio of MPS to EPS
Accounting Rate of Return (ARR)	Interest on debenture

Q.2 A] A Company capital structure consists of the following:

[10]

Particulars	Amount (₹)
Equity share of ₹ 100 each	40 Lakhs
Retained Earnings	20 Lakhs
9% Preference share	24 Lakhs
7% Debenture	16 Lakhs
Total	100 Lakhs

The Company earns 12% on capital. The income tax rate is 50%. The company requires a sum of ₹ 50 lakhs to finance expansion programme for which following alternatives are available to it.

- i) Issue of 40,000 Equity shares at a premium of ₹ 25 per share.
- ii) Issue of 10% Preference shares.
- iii) Issue of 8% Debentures.

Find EPS and also mention which of the three financing alternatives would you recommend and why?

Q.2 B] Following are the details provided by a firm.

[10]

The fixed costs are ₹ 2,00,000 in two different situations under both plan A and Plan B .
The information regarding capital structure and other data are as under:

Particulars	Financial Plan	
	A (₹)	B (₹)
Equity	10,00,000	2,00,000
10% Debenture	2,00,000	10,00,000

Particulars	(₹)
Sales	20,00,000
Contribution as percentage of sales	40 %

Calculate Variable cost, operating leverage, financial leverage and combined leverage under each situation under Financial Plan A and Financial Plan B

Q.3 A] DP Ltd. has one 5 year investment proposal, its investment cost and annual profits are as follows:

[10]

Total Investment = ₹ 10,00,000

Year	CFAT Amount (₹)
1	4,80,000
2	3,60,000
3	2,40,000
4	1,20,000
5	1,20,000

Calculate Net Present Value & Profitability index for this investment proposal. (Note: Use PV factor at 10% up to 3 decimals)

Q.3 B] From the following information, you are required to estimate the net working capital:

[10]

Particulars	Cost per unit (₹)
Raw Material	400
Direct Labour	150
Overheads (excluding depreciation)	300
Total	850

Additional Information:

Selling price	₹ 1000 per unit
Output	52000 units per annum
Raw materials	Average 4 weeks in stock
Work-in-progress (assume 50% of Completion stage with full material consumption)	Average 2 weeks
Credit allowed by suppliers	Average 4 weeks
Credit allowed to debtors	Average 8 weeks

Cash at bank is expected to be ₹ 50,000.

Assume that production is sustained at an even pace during the 52 weeks of the year. All sales are on credit basis. State any other assumptions that you might have made while computing.

Q. 4 A] SRK and Sons. wish to approach the bankers for temporary overdraft facility for the period from October 2023 to December 2023. During the period of this period of these three months, the firm

will be manufacturing mostly for stock. You are required to prepare a cash budget for the above period.

Month	Sales (₹)	Purchases (₹)	Wages (₹)
August	3,60,000	2,49,600	24,000
September	3,84,000	2,88,000	28,000
October	2,16,000	4,86,000	22,000
November	3,48,000	4,92,000	20,000
December	2,52,000	5,36,000	30,000

(a) 50% of credit sales are realized in the month following the sales and remaining 50% in the second following month.

(b) Creditors are paid in the month following the month of purchase

(c) Estimated cash as on 1-10-2023 is ₹ 50,000.

Q. 4 B] ABC Co. dealing in toys, have an annual sale of ₹ 500000 and are currently extending 30 days credit to the dealers. It is felt that sales can pick up considerably if the dealers are willing to carry increased stocks, but the dealers have difficulty in financing their inventory. ABC Co. is therefore considering shifts in credit policy. The following information is available: **[10]**

The average collection period now is 30 days.

Costs:

Contribution - 20 % on sales.

Fixed costs - ₹ 60000 per annum.

Required return (pre-tax) on investment - 20%

Credit Policy	Average collection Period	Annual Sales (₹)
A	45 days	560000
B	60 days	600000
C	75 days	620000

Determine which policy the company should adopt. Assume a year of 360days.

Q. 5 Write Short Notes on: (any four)

[20]

Internal rate of Return (IRR)

Weighted Average Cost of Capital

Importance of RBI as regulator

Operating Cycle

Financial Market