

# PC-4173/MR

F-16/2050

FINANCIAL MANAGEMENT-603

(Semester-VI)

Time : Two Hours]

[Maximum Marks : 70

**Note :** Attempt any *four* questions. All questions carry equal marks.

- I. “The objective of financial management is wealth maximization and profit maximization.” Comment.
- II. Give a comparative description of net present value method and internal rate of return method.
- III. ABC Ltd. is considering on investment proposal to install a new control machine. The project will cost Rs. 1,50,000. The facility has a life expectancy of 5 years and no salvage value. The firm uses straight line depreciation. The estimated

cash flows before tax from the investment proposal are as follows :

Year	1	2	3	4	5
CFBT (Rs.)	30,000	37,500	37,500	45,000	75,000
Rate	0.909	0.826	0.751	0.683	0.621

Compute the following :

1. Payback period.
2. Average rate of return.
3. NPV at 10% cost of capital.
4. Internal rate of return.

IV. The following is an extract from the financial statement of XYZ :

(Rs. in lakhs)

Operating profit	180
<i>Less</i> : Interest on debentures	48
	132
<i>Less</i> : Income tax (50%)	66
	66
Equity share capital (shares of Rs. 10 each)	300
Reserves and surplus	150
16% non-convertible debentures	300
	750

The market price per equity share is Rs. 11 and per debenture is Rs. 95.

- (i) What is the earning per share?
- (ii) What is the percentage cost of capital to the company for the equity and debenture funds?

V. Assuming the existence of taxes, describe MM approach on the issue of optimum capital structure.

VI. “A firm should follow a policy of very high dividend pay out”. Do you agree? Why or why now?

VII. The financial data of Vishal & Bros. Co. Ltd. is as follows:

Fixed cost	Rs. 50,000
Variable cost	70% of sales
Sales	Rs. 2,00,000 in previous year and Rs. 2,50,000 in current year

Find out percentage change in sales and operating profit when:

- (i) Fixed cost are not there (no leverage).
- (ii) Fixed cost are there (leverage situation).

VIII. Manufacturing company sells goods in the home market and earns a gross profit of 20% on sales. Its annual figure are as follows :

	Rs.
Sales	3,00,000
Material used	1,08,000
Wages	96,000
Manufacturing expenses	1,20,000
Administration and other expenses	30,000
Selling and distribution expenses	18,000
Depreciation	12,000
Income tax payable in four installment of which one falls in the next financial year	60,000

**Additional information** is as follows :

- (i) Credit given by supplier of materials is 2 months.
- (ii) Credit allowed to customers is 1 month.
- (iii) Wages are paid half a month in arrear.

- (iv) Manufacturing and administration expenses are paid one month in arrear.
- (v) Selling and distribution expenses are paid quarterly in advance.
- (vi) The company wishes to keep one month stock of raw material and also of finished goods.
- (vii) The company believe in keeping cash of Rs. 50,000 including the overdraft limit of Rs. 20,000 not yet utilized by the company.

You are required to prepare a statement showing the working capital requirements of the company adding 10% margin for contingencies. Cost of goods sold for computation of debtor and stock of finished goods may be taken at sales minus gross profit as per rate of gross profit given.

IX. Write short notes on any *ten* :

- (i) Role of financial manager.
- (ii) Operating leverage.
- (iii) Define capital rationing.
- (iv) What is pay-back period?
- (v) What is cost of retained earning?

- (vi) Marginal cost of capital.
- (vii) Capital gearing.
- (viii) Financing mix.
- (ix) Bonus issue.
- (x) Scrip dividend.
- (xi) Sources of short term working capital.
- (xii) What is factoring?

## PUNJABI VERSION

ਨੋਟ : ਕੋਈ ਚਾਰ ਪ੍ਰਸ਼ਨ ਕਰੋ। ਸਾਰੇ ਪ੍ਰਸ਼ਨਾਂ ਦੇ ਅੰਕ ਬਰਾਬਰ ਹਨ।

- I. "ਵਿੱਤੀ ਪ੍ਰਬੰਧ ਦਾ ਮਨੋਰਥ ਦੌਲਤ ਅਤੇ ਮੁਨਾਫੇ ਨੂੰ ਅਧਿਕਤਮ ਕਰਣਾ ਹੁੰਦਾ ਹੈ।" ਟਿੱਪਣੀ ਕਰੋ।
- II. ਸ਼ੁੱਧ ਵਰਤਮਾਨ ਕੀਮਤ ਵਿਧੀ ਅਤੇ ਮੁਨਾਫੇ ਦੀ ਦਰ ਦੀ ਅੰਤਰੀਵ ਵਿਧੀ ਦੀ ਤੁਲਨਾਤਮਕ ਵਿਆਖਿਆ ਕਰੋ।
- III. ਨਿਮਨ-ਦਰਜ਼ ਵੇਰਵਿਆਂ ਦਾ ਅਧਿਐਨ ਕਰਕੇ ਲੋੜੀਂਦੀ ਕਾਰਵਾਈ ਕਰੋ :

ABC Ltd. is considering on investment proposal to install a new control machine. The project will cost Rs. 1,50,000. The facility has a life expectancy of 5 years and no salvage value. The firm uses straight line depreciation. The estimated cash flows before tax from the investment proposal are as follows :

Year	1	2	3	4	5
CFBT (Rs.)	30,000	37,500	37,500	45,000	75,000
Rate	0.909	0.826	0.751	0.683	0.621

Compute the following :

1. Payback period.
2. Average rate of return.

3. NPV at 10% cost of capital.

4. Internal rate of return.

IV. ਨਿਮਨ-ਦਰਜ ਵੇਰਵੇ ਵਿਚਾਰੋ ਅਤੇ ਪੁੱਛੋ ਗਏ ਅਨੁਸਾਰ ਉੱਤਰ ਲਿਖੋ :

The following is an extract from the financial statement of XYZ :

	(Rs. in lakhs)
Operating profit	180
<i>Less</i> : Interest on debentures	<u>48</u>
	132
<i>Less</i> : Income tax (50%)	<u>66</u>
	<u>66</u>
Equity share capital (shares of Rs. 10 each)	300
Reserves and surplus	150
16% non-convertible debentures	<u>300</u>
	<u>750</u>

The market price per equity share is Rs. 11 and per debenture is Rs. 95.

(i) What is the earning per share?

(ii) What is the percentage cost of capital to the company for the equity and debenture funds?



- V. ਟੈਕਸਾਂ ਦੀ ਹੋਂਦ ਮੰਨਦੇ ਹੋਏ, ਆਦਰਸ਼ਕ ਪੂੰਜੀ ਸੰਰਚਨਾ ਪ੍ਰਤੀ MM ਪਹੁੰਚ ਵਿਚਾਰੋ।
- VI. 'ਫਰਮ ਨੂੰ, ਬਹੁਤ ਅਧਿਕ ਲਾਭੰਸ਼ ਦੇਣ ਦੀ ਨੀਤੀ ਅਪਨਾਉਣੀ ਚਾਹੀਦੀ ਹੈ।' ਕੀ ਤੁਸੀਂ ਸਹਿਮਤ ਹੋ? ਹਾਂ ਤਾਂ ਕਿਉਂ, ਨਹੀਂ ਤਾਂ ਕਿਉਂ ਨਹੀਂ? ਸਪਸ਼ਟ ਕਰੋ।
- VII. ਨਿਮਨ-ਦਰਜ ਵੇਰਵਿਆਂ ਦਾ ਅਧਿਐਨ ਕਰਕੇ ਲੋੜੀਂਦੀ ਕਾਰਵਾਈ ਕਰੋ :

The financial data of Vishal & Bros. Co. Ltd. is as follows:

Fixed cost	Rs. 50,000
Variable cost	70% of sales
Sales	Rs. 2,00,000 in previous year and Rs. 2,50,000 in current year.

Find out percentage change in sales and operating profit when:

- (i) Fixed cost are not there (no leverage).
- (ii) Fixed cost are there (leverage situation).

VIII. ਨਿਮਨ-ਦਰਜ ਵੇਰਵੇ ਵਿਚਾਰੋ ਅਤੇ ਪੁੱਛੋ ਗਏ ਪ੍ਰਸ਼ਨ ਦਾ ਉੱਤਰ ਲਿਖੋ :

Manufacturing company sells goods in the home market and earns a gross profit of 20% on sales. Its annual figure are as follows :

	Rs.
Sales	3,00,000
Material used	1,08,000
Wages	96,000
Manufacturing expenses	1,20,000
Administration and other expenses	30,000
Selling and distribution expenses	18,000
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Additional information is as follows :

- (i) Credit given by supplier of materials is 2 months.
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You are required to prepare a statement showing the working capital requirements of the company adding 10% margin for contingencies. Cost of goods sold for computation of debtor and stock of finished goods may be taken at sales minus gross profit as per rate of gross profit given.

IX. ਕਿਸੇ ਦਸ 'ਤੇ ਸੰਖੇਪ ਨੋਟ ਲਿਖੋ :

- (i) ਵਿੱਤੀ ਪ੍ਰਬੰਧਕ ਦੀ ਭੂਮਿਕਾ ਕੀ ਹੁੰਦੀ ਹੈ?
- (ii) ਓਪਰੇਟਿੰਗ ਲੀਵਰੇਜ ਤੋਂ ਕੀ ਭਾਵ ਹੈ?
- (iii) ਪੂੰਜੀ ਰਾਸ਼ਨਿੰਗ ਨੂੰ ਪਰਿਭਾਸ਼ਿਤ ਕਰੋ।

- (iv) ਪੇਅ-ਬੈਕ ਅਵਧੀ ਤੋਂ ਕੀ ਭਾਵ ਹੁੰਦਾ ਹੈ?
  - (v) ਰਖੀ ਗਈ ਕਮਾਈ ਦੀ ਲਾਗਤ ਕੀ ਹੁੰਦੀ ਹੈ?
  - (vi) ਪੂੰਜੀ ਦੀ ਨਿਊਨਤਮ ਲਾਗਤ ਤੋਂ ਕੀ ਭਾਵ ਹੈ?
  - (vii) ਪੂੰਜੀ ਗੀਅਰਿੰਗ ਕੀ ਹੁੰਦੀ ਹੈ?
  - (viii) ਵਿੱਤੀ ਮਿਸ਼ਰਣ ਤੋਂ ਕੀ ਭਾਵ ਹੈ?
  - (ix) ਬੋਨਸ ਇਸ਼ੂ ਤੋਂ ਕੀ ਭਾਵ ਹੁੰਦਾ ਹੈ?
  - (x) ਸਕ੍ਰਿਪ ਲਾਭੰਸ਼ ਦੇ ਅਰਥ ਲਿਖੋ।
  - (xi) ਅਲਪਕਾਲੀ ਕਾਰਜੀ ਪੂੰਜੀ ਦੇ ਸਰੋਤ ਕੀ ਹੁੰਦੇ ਹਨ?
  - (xii) ਫੈਕਟਰਿੰਗ ਤੋਂ ਕੀ ਭਾਵ ਹੁੰਦਾ ਹੈ?
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