Roll No. .... **Total Pages : 6**

8126/NJ

D-47/2110

FINANCIAL MANAGEMENT

Paper–MC-105(ii)

Semester–I

Time allowed : 3 Hours] [Maximum Marks : 70

Note : Attempt **two** questions each from Section A and B. Attempt any **ten** questions from Section C.

SECTION-A

1. "Financial management is more than procurement of funds." Do you agree? Support your answer. 10

2. Elucidate the relationship between NPV and IRR. When do they differ? 10

3. ZED Ltd. is presently financed entirely by equity shares. The current market value is Rs. 6,00,000.

A dividend of Rs. 1,20,000 has just been paid. This level of dividend is expected to be paid indefinitely. The company is thinking of investing in a new project involving an outlay of Rs. 5,00,000 now and is expected to generate net cash receipts of Rs. 1,05,000 per annum indefinitely. The project would be financed by issuing Rs. 5,00,000 debentures at the market interest rate of 18%. Ignoring tax consideration:

(i) Calculate the value of equity shares and the gain made by the shareholders if the cost of equity rises to 21.6%.

(ii) Prove that the weighted average cost of capital is not affected by gearing. 10

4. The capital structure of the Progressive Ltd. consists of ordinary share capital of Rs. 10,00,000 (shares of Rs. 100 each) and Rs. 10,00,000 of 10% Debentures. The selling price is Rs. 10 per unit, variable cost amount to Rs. 6 per unit and fixed expenses amount to Rs. 2,00,000. The income tax rate is assumed to be 30%. The sales level is

expected to increase from 1,00,000 units to 1,20,000 units.

(a) You are required to calculate:

(i) The percentage increase in earnings per share.

(ii) The degree of financial leverage at 1,00,000 units and 1,20,000 units.

(b) Comment on behaviour of financial leverage in relation to increase in production from 1,00,000 units to 1,20,000 units. 10

SECTION-B

5. "Financial management can use dividend policy to maximise the wealth of the equity shareholders." Examine.

6. ABC Ltd. has no leverage in capital structure at present. The market value of equity is Rs. 32,50,000 and the cost of capital (as well as cost of equity) is 18%. The company follows 100% DP ratio and earnings are expected to remain

constant for few years. There is a proposal to avail 13% loan of Rs. 5,00,000 and using the proceeds to buyback equity capital of the same amount. The tax rate applicable is 35%. Using MM model (with taxes), show how the change in capital structure will affect :

(i) Market value

(ii) cost of equity and

(iii) cost of capital. 10

7. Prepare an estimation of net working capital requirement for the WCM Ltd. adding 10% for contingencies from the information given below:

Estimated cost per unit of production Rs. 170 includes raw materials Rs. 80, direct labour Rs. 30 and overheads (exclusive of depreciation) Rs. 60. Selling price is Rs. 200 per unit. Level of activity per annum 1,04,000 units. Raw material in stock: average 4 weeks; work in progress (assume 50% completion stage): average 2 weeks; finished goods in stock: average 4 weeks; credit allowed by suppliers: average 4 weeks; credit allowed to debtors: average 8 weeks; lag in payment of wages: average 1.5 weeks and cash at bank is expected to be Rs. 25,000. You may 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. You may state your assumptions, if any. 10

8. State the role which receivables play in the overall financial picture of the firm? 10

SECTION-C

9. Describe any ten of the following : 3×10=30

(i) Financing decision

(ii) Payback period

(iii) Cost of retained earnings

(iv) Combined leverage

(v) Capital budgeting

(vi) Capital rationing

(vii) Stable dividend policy

(viii) Net operating income approach

(ix) Economic order quantity

(x) Sources of working capital

(xi) Acquisition

(xii) Gordon's model.