Exam. Code : 108503
Subject Code : 2117

B.Com. 3rd Semester
FINANCIAL MANAGEMENT
Paper : BCG-305

Time Allowed—3 Hours] [Maximum Marks—50

SECTION—A

Note :— Attempt any **TEN** questions. Answer to each question should be upto **5** lines. Each question carries **1** mark.

1. Write short notes on :—
   (a) IRR
   (b) Scrip dividend
   (c) Letter of credit
   (d) Over Capitalisation
   (e) Financial structure *Vs.* Capital structure
   (f) Venture Capital
   (g) Bonus Issue *Vs.* Rights Issue
   (h) Time value of money
   (i) Two problems in determining cost of capital
   (j) Degree of financial leverage
   (k) Conservative policy of working capital management
   (l) Marginal cost of capital. 1×10=10

SECTION—B

Note :— Attempt any **TWO** questions. Answer to each question should not exceed **5** pages. Each question carries **10** marks.

2. As a financial manager of a new Company, what various sources would you tap to raise funds required for its smooth functioning ? Explain.

3. ABC company has currently an ordinary share capital of Rs. 25 Lakhs consisting of 25,000 shares of Rs. 100 each. The management is planning to raise another Rs. 20 Lakhs to finance a major programme of expansion through one of four possible plans. The options are :

(a) Entirely through ordinary shares.

(b) Rs. 10 Lakhs through ordinary shares and Rs. 10 Lakhs through long term borrowings at 8% interest per annum.

(c) Rs. 5 Lakhs through ordinary shares and Rs. 15 Lakhs through long term borrowings at 9% interest per annum.

(d) Rs. 10 Lakhs through ordinary shares and Rs. 10 Lakhs through 5% preference shares.

The company's EBIT will be Rs. 8 Lakhs. Assuming Tax rate of 50%, determine Earning per share in each alternative and comment which alternative is the best and why.

4. What is meant by Financial Leverage ? How does it magnify the revenue available for equity shareholders ?

5. The following is the capital structure of Paras Ltd. :

	Rs.
Equity Shares of Rs. 100 each	20,00,000
10% Preference Shares of Rs. 100 each	8,00,000
12% Debentures	12,00,000
Total	40,00,000

The market price of the company's share is Rs. 110 and it is expected that a dividend of Rs. 10 per share would be declared after 1 year. The dividend growth rate is 6%.

(i) Compute the weighted average cost of capital if the company is in 50% tax bracket.

(ii) Assuming that in order to finance an expansion plan, the company intends to borrow a fund of Rs. 20 Lakhs bearing 14% rate of interest, what will be the revised weighted average cost of capital ? This financing is expected to increase dividend from Rs. 10 to Rs. 12 per share. However the market price of equity share is expected to decline from Rs. 110 to Rs. 105 per share.

10×2=20

SECTION—C

Note :— Attempt any **TWO** questions. Answer to each question should not exceed **5** pages. Each question carries **10** marks.

6. An extract of cost sheet of a company provides the following particulars :

Elements of cost	Percentage on Selling Price
Raw Materials	40%
Labour	10%
Overheads	30%

The following particulars are available :

(1) Raw materials are to remain in stores on an average-6 weeks.

(2) Processing time : 4 weeks (assume 50% completion stage with full material consumption).

(3) Finished goods are required to be in stock on an average of 8 weeks.

(4) Credit period allowed to Debtors on average is 10 weeks.

(5) Lag in payment of wages : 2 weeks.

(6) Credit period allowed by creditors : 4 weeks.

(7) Selling price : Rs. 50 per unit.

You are required to prepare an estimate of working capital requirements adding 10% margin for contingencies for a level of activity of 1,30,000 units of production.

7. Discuss the new trends in financing of working capital by Banks.

8. Explain the various factors that influence the dividend decision of a firm.

9. A firm whose cost of Capital is 10% is considering two mutually exclusive projects X and Y; the details of which are :

	Project X (in Rs.)	Project Y (in Rs.)
Investment	70,000	70,000
Cash Flow Year 1	10,000	50,000
Cash Flow Year 2	20,000	40,000
Cash Flow Year 3	30,000	20,000
Cash Flow Year 4	45,000	10,000
Cash Flow Year 5	60,000	10,000
Total Cash Flows	2,35,000	2,00,000

Compute the NPV, Profitability Index and IRR for the two projects. 10×2=20