[This question paper contains 5 printed pages.]

Your Roll No...........................

Sr. No. of Question Paper	:	**5735**
Unique Paper Code	:	61011406
Name of the Paper	:	Financial Management
Name of the Course	:	**Bachelor for Management Studies (BMS), 2022 (CBCS)**
Semester	:	IV
Duration	:	3 Hours
Maximum Marks	:	75

Instructions for Candidates

1. Write your Roll No. on the top immediately on receipt of this question paper.
2. Attempt **five** questions in all.
3. Attempt parts of a question together.
4. **All** questions carry equal marks.
5. Use of simple calculator is allowed.
6. Show your workings clearly.

1. A Ltd. is planning to replace one of its machines. It wants to expand its operations and hence requires a machine with a higher capacity. The existing machine is in good operating condition, but has a lower production capacity. It is 3 years old, has a current salvage value of Rs. 2,00,000 and a remaining life of 4 years. The machine was initially purchased for Rs. 10 lakhs and is being depreciated at 20% on the WDV basis. It's salvage value at the end of its useful life is estimated to be nil.

The new machine will cost Rs. 25 lakhs and will be subject to the same method as well as the same rate of depreciation. It is expected to have the useful life of 4 years. The management anticipates that with the expanded operations there will be a need of an additional net working capital of Rs. 2 lakhs at the beginning, Rs.1 lakh at the beginning of second year and Rs.1 lakh at the end of third year. The new machine will allow the firm to expand the current operations and thereby increase its cash annual revenue by Rs. 25,00,000. Variable cost will be 40 percent of sale. Annual fixed cash costs are likely to increase by Rs. 3,00,000 in the first three years of its operation and Rs. 2,00,000 thereafter. It is estimated that new machine can be sold for Rs. 9,00,000 at end of its useful life. The corporate tax rate is 30%. Firm's required rate of return is 10%. The company has no other machine in the block of 20% depreciation. Using NPV technique, comment whether the company should replace the existing machine. (Round off your calculations to nearest rupee).

(15 marks)

2. The capital structure of ABC Ltd. is as under:

	Rs.
Equity shares (face value Rs. 10 per share)	10,00,000
11% Preference shares	5,00,000
9% Debentures	5,00,000
Reserves & Surplus	10,00,000
	30,00,000

Additional Information:

(*i*) Rs. 100 per debenture redeemable after 10 years. The market price per debenture is Rs. 90.

(*ii*) Rs. 100 per preference share redeemable after 5 years. The market price per preference share is Rs. 95.

(*iii*) Equity share is trading at Rs. 30. The expected dividend is Rs. 2.4 per share with annual growth of 8%.

(*iv*) Corporate income tax rate is 30%

Calculate weighted average cost of capital (WACC) using book value and market value weights.

(15 marks)

3. (a) Explain the scope of financial management. (5 marks)

(b) Company X is making sales of Rs. 40,00,000 and it extends credit of 60 days to its customers. However, it is considering tightening its credit policy. The proposed terms of credit and expected sales are given below:

Policy	Term	Sales
I	45 days	2.5% decrease in sales
II	30 days	5% decrease in sales
III	20 days	10 % decrease in sales

The firm has a variable cost of 70% and fixed cost of Rs. 50,000. The cost of capital is 15%. Evaluate different proposed policies and indicate which policy should be adopted. (Assume 360 days in a year and round off your calculations to nearest rupee).

(10 marks)

7. Attempt any ***two*** of the following:

i. The finance department of a corporation provides the following information:
   (a) Annual Carrying costs per unit of inventory are Rs. 5
   (b) The fixed ordering cost per order is Rs. 50.
   (c) The number of units required is 24,000 per year.

   Determine Economic Order Quantity, total number of orders in a year and the time gap between two orders assuming 365 working days per year.

ii. Examine the traditional approach of capital structure.

iii. Explain the relevance of dividends on firm value using MM Approach.

(7.5*2=15 marks)

(100)

i) Sales is 20% cash and 80% credit. Credit period 2 months from the month of sale.
ii) Variable expenses is 5% of turnover. Payment is made 50% in the same month and 50% in the next month.
iii) Commission 5% on credit sale and is payable in the second month of sale
iv) Purchases are 60% of sales and are paid 2 Months from the month of purchase
v) Rent of Rs.6000 is paid every month.
vi) Other payments: Fixed assets purchases will be Rs.36000 in February and Rs.100000 in March. Taxes will be Rs.40000 in April.
vii) Opening cash balance is Rs.50000

(10 marks)

6 a) Raymond Textiles has 1000000 shares outstanding with a market price of Rs.50/share. It has also already issued 12% bonds of Rs.4 crores in the past. It is planning to expand by investing Rs. 5 crores. There are 3 financing options available:

i) Issue of equity shares at Rs.40 each
ii) Issue of 15% bonds
iii) 50% of investment through issue of equity shares at Rs.40 each and remaining from 15% bonds.

Tax rate is 50%. Calculate the following:
- Assuming an EBIT of Rs. 25000000 suggest the best financing plan.
- Indifference point between different financing options

b) The following information is available for a company:

Sales	Rs. 200000
Less variable cost @ 30%	Rs. 60000
Contribution	Rs. 140000
Less Fixed cost	Rs. 100000
EBIT	Rs. 40000
Less Interest	Rs. 5000
Profit before tax	Rs. 35000

i) Using the concept of leverage by what percent will the taxable income increase if EBIT increases by 6%?
ii) Using the concept of leverage by what percent will the EBIT increase if sales increases by 10%?
iii) Using the concept of leverage by what percent will the EPS increase if sales increases by 6%?
Also verify the results

(7.5*2=15 marks)

4. (a) Briefly explain the approaches to finance the working capital requirements. (5 marks)

(b) The company has called for a statement showing the working capital needs to finance a level of activity of 1,04,000 units of output for the year. The cost structure for the company's product for the abovementioned activity level is detailed below:

	Cost/unit (Rs)
Raw materials	10
Direct labour	10
Overheads (including depreciation of Rs 5 unit)	20
Total cost	40
Profit	10
Selling price	50

Additional information:

i. Minimum desired cash balance is Rs. 20,000
ii. Raw materials are held in stock on an average for 8 weeks.
iii. Work-in-progress will approximate to 4 weeks of production. Complete raw material is introduced in the beginning of the production cycle.
iv. Finished goods remain in the warehouse on an average for 8 weeks.
v. Suppliers extend 4 weeks credit and debtors are provided 8 weeks credit: Cash sales are one-fifth of the total sales.
vi. There is a time-lag in payment of wages for 4 weeks and 2 weeks in case of overheads.

From the above facts, you are required to prepare a statement showing working capital needs of the firm.

(10 marks)

5. (a) Critically examine the payback period technique of capital budgeting.

(5 marks)

(b) A company has given the actual sales for November and December 2020 along with the sales forecast for January 2021 to July 2021. Prepare the cash budget for the duration of January 2021 to May 2021 from the information given below:

Month	Year	Actual/forecasted Sales (in Rs.)
November	2021	160000
December	2021	140000
January	2022	160000
February	2022	200000
March	2022	160000
April	2022	200000
May	2022	180000
June	2022	240000
July	2021	200000