[redacted]

Sl. No. of Q.Paper: 6209

Unique Paper Code : 61011406

Name of Paper : Financial Management

Name of Course : Bachelor of Management Studies (BMS) 2022 (CBCS)

Semester : IV

Duration : 3.5 hours (as a one-time measure)

Maximum Marks : 75

Instructions to Candidates:

*Answer any **five** questions. All questions carry equal marks. Attempt parts of a question together. Show your workings clearly as a part of the solution. Use of Simple Calculator is allowed.*

1.ZS Company Limited is considering replacement of its existing machine by a new machine which is expected to cost Rs. 15,00,000. The new machine will have a life of 5 years and will yield annual cash revenues of Rs. 25,00,000 and incur annual cash expenses of Rs. 14,00,000. It will require an additional investment of Rs. 1,00,000 in working capital. The estimated salvage value of the new machine is Rs. 4,00,000. The existing machine has a book value of Rs. 4,00,000 and can be sold for Rs. 2,00,000 today. It is good for next 5 years and is estimated to generate annual cash revenue of Rs. 20,00,000 and to involve annual cash expenses of Rs. 14,00,000. It's salvage value after 5 years is estimated at Rs. 50,000. Corporate tax rate is 25%. Depreciation rate is 25% on W.D.V method. The company's opportunity cost of capital is 12%. There are no other assets in the block wherein the replacement of machine is being considered. Based on NPV criterion, advise whether the company should replace the machine or not. (Round off your calculations to nearest rupee).

PVIF at 12% cost of capital are given below for your ready reference:

Year	1	2	3	4	5
PVIF at 12%	0.893	0.797	0.712	0.636	0.567

(15 marks)

2. (a) Explain factors determining the working capital requirements. (5 marks)

(b) PQR Limited, a manufacturing firm has supplied you the following information:
Balance Sheet as at 31-3-2021

Liabilities	Amount (Rs.)	Assets	Amount(Rs.)
Equity share capital	24,00,000	Fixed assets	50,00,000
Pref. share capital	9,00,000	Current assets	30,00,000
Retained earnings	9,00,000		
Debentures	18,00,000		
Current Liabilities	20,00,000		
	80,00,000		80,00,000

Additional information:

(i) 20 years, 13% debentures of Rs. 2,500 face value: redeemable at 5% premium, can be sold at par, 2% flotation costs.

(ii) 10 years, 15% preference shares: sale price Rs.100 per share, 2% flotation costs.

(iii) Equity shares: sale price Rs.115 per share, flotation costs Rs.4 per share.

The corporate tax rate is 35% and the expected growth in equity dividend is 8% per year. The expected dividend at the end of the current financial year is Rs.12 per share. Assume that the company is satisfied with its present capital structure and intends to maintain it.
Determine weighted average cost of capital by using book value weights.

(10 marks)

3. (a) Compare NPV and IRR techniques of evaluating investment proposals. Comment whether they give consistent results always.

(5 marks)

(b) ABC company is making sales of Rs. 30,00,000 and it extends a credit of 30 days to its customers. The company is contemplating to revise its credit policy and make it more liberal. The table below shows the policy terms for the credit period of 45 days, 60 days and 75 days.

Policy	Term	Sales
I	45 days	Rs. 33,00,000
II	60 days	Rs. 35,00,000
III	75 days	Rs. 38,00,000

The firm has a variable cost of 70%. The cost of capital is 10%. Assume 360 working days in an year and that the fixed costs do not change over the increased level of production and sales. Recommend the most appropriate credit policy to the management. (Round off your calculations to nearest rupee).

(10 marks)

Q 4. (a) Distinguish between diversifiable and non-diversifiable risks. Explain the sources of such risks.

(5 marks)

(b) From the following information of ABC Ltd., calculate the working capital requirement on cash cost basis.

Sales and production for the year (units)	1,32,000
Finished goods in store	3 months
Raw material in store	3 months consumption
Production process	1 month
Credit allowed by creditors	1 months
Selling price per unit	Rs. 100
Raw material cost	30% of selling price
Direct wages	30% of selling price
Manufacturing Overheads	10% of selling price
Administrative Overheads	5% of selling price
Selling & Distribution Overheads	5% of selling price

20% sales are on cash basis and credit allowed to customers on credit sales is 1 month. Manufacturing overheads include Rs. 2 as depreciation. There is a regular production and sales cycle and wages and overheads accrue evenly. Wages are paid in the next month of accrual and overheads are paid 15 days in arrears. Material is introduced in the beginning of the production cycle. Payment for raw material lags 1 month.

(10 marks)

5. (a) Explain wealth maximization as the objective of financial management.

(5 marks)

(b) Zampa Ltd. has the following financial information:

Balance Sheet

Liabilities		Assets	
Equity shares (Rs 10 each)	Rs 8,00,000	Net fixed assets	Rs 10,00,000
10% debt	Rs 6,00,000	Current assets	Rs 9,00,000
Retained earnings	Rs 3,50,000		
Current liabilities	Rs 1,50,000		
Total	Rs 19,00,000	Total	Rs 19,00,000

Income statement	(Rs.)
Sales	3,40,000
Less: Operating expenses (including Rs 60,000 depreciation)	1,20,000
EBIT	2,20,000
Less: Interest	60,000
Earnings before tax	1,60,000
Less: Tax	56,000
Net earnings (EAT)	1,04,000

Calculate the degree of operating, financial and combined leverage at the current sale level, if all operating expenses other than depreciation are variable cost. If total assets remain at the same level but sales increase by 30 per cent, how will earning per share change?

(10 marks)

6. (a) The earnings per share of a company are Rs. 8 and the rate of capitalization applicable is 10%. The company has before it an option of adopting (i) 25, (ii) 50 and (iii) 100 per cent dividend payout ratio. Compute the market price of the company's quoted shares as per Walter's Model if it can earn a return is 15% on its retained earnings under each of the option above and suggest the most appropriate option.

(5 marks)

(b) ABC Ltd has given the following particulars, you are required to prepare a cash budget for quarters ending 31st December 2022.

Month	Sales (Rs.)	Materials (Rs)	Wages (Rs)	Overheads (Rs)
August	40,000	20,400	7,600	3,800
September	42,000	20,000	7,600	4,200
October	46,000	19,600	8,000	4,600
November	50,000	20,000	8,400	4,800
December	60,000	21,600	9,000	5,000

Credit terms are:

- Sales: 10% sales are on cash basis, 50% of the credit sales are collected next month and the balance in the following month.
- Lag in payments: materials 2 months, wages 1 month, Overheads 1 month.
- Cash balance on 1st October, 2022 is expected to be Rs 8,000.
- Advance to be received for sale of vehicle Rs. 40,000 in November.
- Dividends at 10% on preference shares capital of Rs. 3,00,000 will be paid on 1st Dec 2022.
- Income tax (advance) to be paid in December Rs. 5,000.

(10 marks)

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

i. A purchase manager places orders, each time for a lot of 750 units of a particular item. From the additional information given below determine the optimum order size for the inventory item. Also determine the loss to the organization due to manager's current ordering policy.
   a) Inventory carrying cost per unit per annum is 50% of the inventory value.
   b) Ordering cost per order Rs. 900.
   c) Cost per unit Rs. 60.
   d) Annual demand 1,500 units.

ii. Give a critical appraisal of traditional approach to the theory of capital structure.

iii. Describe the Modigliani Miller theory of irrelevance of dividends.

(7.5*2=15 marks)