[This question paper contains 4 printed pages.]

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

Sr. No. of Question Paper	:	**6832**
Unique Paper Code	:	61011406
Name of the Paper	:	Financial Management
Name of the Course	:	**Bachelor of Management Studies (BMS), 2023 LOCF**
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. Answer **any five** questions.
3. **All** questions carry equal marks.
4. Attempt parts of a question together.
5. Show your workings clearly as a part of the solution.
6. Use of Simple Calculator is allowed.

Q.1. XYZ ltd is considering to replace one of its existing machine with new one. Assume the company has only this machine in the block which is subject to depreciation of 20 percent on WDV basis. Should the company replace the machine? (10marks)

Existing machine	New machine
One full time operator salary, 36,000 Variable overtime 3000 Fringe benefits 3000 Cost of defects 3000 Price of existing machine 60000 Useful life 5 years Salvage value of the machine 36,000 Tax rate 35% Required rate of return 15%	Fully automated no operator is required Cost of new machine 180000 Transport charges 3000 Installation costs 15000 Expected life 5 years Annual maintenance 3000 Cost of defects 3000 Salvage value at year 5th year 20000

Year	1	2	3	4	5	6
PV Factor @15%	0.870	0.756	0.658	0.572	0.497	0.432

(II). What do you understand by operating, financial leverage and combined leverage? (5marks)

Q.2. XYZ Ltd has the following book value capital structure (Rs Crore)

Equity capital (Rs 10 each, fully paid up-at par)	Rs 15
12% preference capital (Rs 100 each, fully paid up-at par)	1
Retained earnings	20
11.5% Debenture (Rs 100 each)	10
11% Term loan	12.5

The next expected dividend on equity shares per share is Rs 3.60; the dividend per share is expected to grow at the rate of 7 percent. The market price per share is Rs 40. Preference stock, redeemable after 10 years, is currently selling at Rs 75 per share. Debentures redeemable after 6 years, are selling at Rs 80 per debenture.

The income tax rate for the company is 40 percent.

Calculate the weighted average cost of capital by using the market value weights. (10 marks)

(II). Discuss the different cash management techniques. (5marks)

Q.3. The following information of a manufacturing firm is given below. You are required to determine the working capital requirement of the firm. (10marks)

Raw material cost:	Rs 80 per unit
Direct labour cost:	Rs 30 per unit
Overheads cost (exclusive of depreciation, Rs 10 per unit):	Rs 60 per unit
Total Cash cost:	Rs170

The following is the additional information available:

Selling price, Rs200 per unit

Level of activity, 1,04,000 units of production per annum.
Raw material in stock, average 4 weeks.
Work in progress (assume 50 percent completion stage in respect of conversion cost and 100 percent completion in respect of materials), 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.
Cash at bank is expected to be, Rs 25,000
You are assume that production is carried out evenly throughout the year (52weeks) and wage and overheads accrue similarly. All sale of credit basis.

II What are the different sources of systematic and unsystematic risk? (5marks)

Q.4. Marc Ltd is considering relaxing its present credit policy and is in the process of evaluating two alternative policies. The firm is required to give a return of 25% on the investment in new accounts receivable. The company variable cost is 70 % of the sale. The other relevant information is given below. Which policy option is best for the company? (10marks)

Particulars	Present Policy	Policy option -1	Policy option -2
Sales revenue	Rs 50,00,000	Rs 60,00,000	Rs 67,50,000
Accounts receivable turnover ratio	4	3	2.4
Bad debt losses	1,50,000	3,00,000	4,50,000

(II). What are the three key functions of financial management? (5marks)

Q.5. The two companies U and L, belong to the equivalent risk class. These two firms are identical in every respect except than U Company is unlevered while company L has 10 percent debentures of Rs 30 lakh. The other information is as follow:

Particulars	**Firm U**	**Firm L**
Net operating Income (EBIT)	7,50,000	7,50,000
Equity capitalisation rate (Ke)	15%	20%
Implied overall capitalisation rate	15%	14.3%

An investor owns 10% equity shares of overvalued firm. Show the arbitrage process and the amount by which he could reduce his outlay through the use of leverage. (10marks)

(II). Differentiate between Financial Break-even point and Indifference point. (5marks)

Q.6. A company belongs to a risk class for which the appropriate capitalization rate is 10 percent. It currently has outstanding 25,000 shares selling at Rs 100 each. The firm is contemplating the declaration of a dividend of Rs 5 per share at the end of the current financial year. It expects to have a net income of Rs 2,50,000 and has a proposal for making new investments of Rs 5,00,000. Show that under the MM assumptions, the payment of dividend does not affect the value of the firm? (10 marks)

(II). What is inventory reorder point? How is it computed? (5marks)