Credit Policy	Existing 1 Month	Proposed	
		2 Months	3 Months
% Increase in Sales	—	15%	30%
% of Bad debts	1%	3%	5%

There will be an increase in fixed costs by Rs 50,000 on account of an increase in sales beyond 25% of the present level. The company plans a pre-tax return of 20% on investment in receivables. You are required to calculate the most paying credit policy for the company. (12)

(b) What do you mean by EOQ? Discuss the assumptions underlying the basic EOQ Model. (6)

RAMANUJAN COLLEGE LIBRARY
Kalkaji, New Delhi-110019
RAMANUJAN COLLEGE UNIVERSITY OF DELHI EMPOWER TRANSFORM DISCOVER

21/5/25 (MOR)

[This question paper contains 8 printed pages.]

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

Sr. No. of Question Paper : 6065 **J**

Unique Paper Code : 2922062402

Name of the Paper : Financial Management

Name of the Course : **Bachelor of Management Studies (BMS) 2025 (NEP)**

Semester : IV

Duration : 3 Hours Maximum Marks : 90

Instructions for Candidates

1. Write your Roll No. on the top immediately on receipt of this question paper.
2. Answer any **five** questions. **All** questions carry equal marks.
3. Attempt parts of a question together. Show your workings clearly as a part of the solution.
4. Use of Simple Calculator is allowed.
5. Reference to Present Value Tables may be allowed.
6. Rounding off may be done nearest to a Rupee for amounts, nearest to two decimal places in percentages and nearest to ones place for units.

P.T.O.

1. (a) 'Styles Industries' dealing in manufacturing toys for kids is considering the replacement of one of its machines. The firm wants to expand its operations and hence requires bigger machine. The existing machine is in good operating condition, but is smaller. It is 5 years old, has a current salvage value of Rs. 9,00,000 and a remaining life of 4 years. The machine was initially purchased for Rs. 25 lacs and is being depreciated at 25% on the WDV basis. It's salvage value at the end of its useful life is estimated at Rs. 1,00,000.

The new machine will cost Rs. 40 lacs 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 and will need Rs. 200000 as installation expenses. The management anticipates that with the expanded operations there will be a need of an additional net working capital of Rs. 3,00,000. The new machine will allow the firm to expand the current operations and thereby increase its annual cash revenue by Rs. 30,00,000. Variable cost will be 40 percent of sale. Annual fixed cash costs with the new machine are likely to be Rs.

The following is the additional information:

Selling price per unit	Rs 240
Level of activity (units per annum) Assume that production is sustained during the 52 weeks of the year.	1,56,000
Raw Materials in stock	average 4 weeks
Work in progress [Assume 100% stage of completion of materials and 50 per cent for labour and overheads]	average 2 weeks
Finished Goods in Stock	average 4 weeks
Credit allowed by Suppliers	average 4 weeks
Credit allowed to Debtors (80% of the sales are on credit basis)	average 8 weeks
Lag in payment of Wages & Direct Overheads	average 1.5 weeks
Expected Cash at Bank	Rs. 40,000

(b) Explain the principal motives for holding cash. (6)

6. (a) Rashmi Ltd. has a present annual sales level of 10,000 units at Rs 300 per unit. The variable cost is Rs 200 per unit, and the fixed costs amount to Rs 3,00,000 per annum. The present credit period allowed by the company is 1 month. The company is considering a proposal to increase the credit periods to 2 months and 3 months and has made the following estimates:

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 6,50,000. Show that under the MM assumptions, the payment of dividend does not affect the value of the firm. (12)

(b) Does the dividend policy of a company matter for investors? What is the statement of Walter Model of dividends in this regard? (6)

5. (a) Prepare an estimate of the net working capital requirement of Sona company from the data given below : (12)

Estimated Cost per Unit of Production	Amount per Unit (in Rs)
Raw Materials	100
Direct Labour	40
Direct Overheads	80
Total Cost	220

2,00,000, for the first two years and Rs. 1,00,000 for the next two years of its life. It is estimated that new machine can be sold for Rs. 5,00,000 at end of its useful life. The ccrporate tax rate is 35%. Firm's cost of capital is 12%. The company has several machines in the block of 25% depreciation.

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

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

Using NPV technique, comment whether the company should replace the existing machine. (Round off your calculations to nearest rupee). (12)

(b) Explain how NPV technique of Capital Budgeting differs from IRR technique. (6)

2. (a) The following is the capital structure of Sudhir Ltd. as on 31st March, current year :

Particulars	Amount (Rs.)
Equity Share (10,000 shares of Rs. 100 each)	10,00,000
12% Preference Shares (of Rs. 100 each)	4,00,000
10% Debentures	6,00,000
Total	20,00,000

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 at the end of the current year. The dividend growth rate is 6 per cent. Determine the specific cost of equity to the company. The preference shares are traded at par and the debentures are currently being traded at 98%. If the specific cost for debentures and preference shares is 6.25% and 11.5% respectively, compute the weighted average cost of capital using both book value and market value weights. (Round off the percentages up to 2 decimal places) (12)

(b) Explain the relevance of time value of money in financial management. (6)

3. (a) Suppose a firm has a capital structure exclusively comprising of ordinary shares amounting to Rs 10,00,000. The firm now wishes to raise additional Rs 10,00,000 for expansion. The firm has four alternative financial plans: (A) It can raise the entire amount in the form of equity capital. (B) It can raise 50 per cent as equity capital and 50 per cent as 5% debentures. (C) It can raise the entire amount as 6% debentures. (D) It can raise 50 per cent as equity capital and 50 per cent as 5% preference capital. Further assume that the existing EBIT are Rs 1,20,000, the tax rate is 35 per cent, outstanding ordinary shares 10,000 and the market price per share is Rs 100 under all the four alternatives. Which financing plan should the firm select? (12)

(b) Does the capital structure of a firm affect its market value? Explain briefly the Net Income and Net Operating Income approach in this regard? (6)

4. (a) A company belongs to a risk class for which the approximate capitalisation rate is 10 per cent. It currently has outstanding 25,000 shares selling at