S.No. of Q.Paper : 9282 Roll No.............

Unique Paper Code : 61011406

Name of the Paper : Financial Management

Name of the Course : BMS

Semester : IV

Duration : 3 Hours

Maximum Marks : 75

Instructions for Candidates

1. Write your Roll No. on the top immediately upon receipt of the question paper.
2. Attempt **five** questions including question no.1.which is compulsory to attempt.
3. Attempt all parts of a question together.
4. Marks are indicated against each question.
5. Show your working clearly on the answer sheet.
6. Use of a normal calculator is allowed.

1. Write short notes on any three of the following: **(5*3 = 15 marks)**

   a) Time Value of money.

   b) Cost of Retained Earnings

   c) Operating Leverage

   d) ABC Analysis

2. a) A Company purchased a machine 1 year ago for Rs 18,000. At that time, the machine was estimated to have a useful life of 6 years and no salvage value. The annual operating cost is Rs 20,000. A new machine has just come in the market which will do the same job but with an annual operating cost of only Rs 17,000. This new machine will cost Rs. 21,000 and has a life of 5 years with no salvage value. The old machine can be sold for Rs 15,000. The company uses the straight-line method of depreciation. The tax rate is 40%, and the cost of capital is 12%. Compute Net Present Value. Should the machine be replaced? **(10 marks)**

2. (b) Explain the factors which should be taken into account while making a capital budgeting decision? **(5 marks)**

3. (a) Critically evaluate the NI and NOI approach to capital structure. **(10 marks)**

3. (b) Three financing plans are being considered by ABC Ltd. which requires Rs 10,00,000 for construction of a new plant. It wants to maximize the EPS and the current market price of the share is Rs 30. It has a tax rate of 30% and debt financing can be arranged as follows:
Up to Rs 1,00,000 @ 10%; from Rs 1,00,000 to Rs 5,00,000 @ 14%; and over Rs 5,00,000 @ 18%. The three financing plans and the corresponding EBIT are as follows:
Plan I: Rs 1,00,000 debt; expected EBIT Rs 2,50,000
Plan II: Rs 3,00,000 debt; expected EBIT Rs 3,50,000
Plan III: Rs 6,00,000 debt; expected EBIT Rs 5,00,000

Find out the EPS for all the three plans and suggest which plan is better from the point of view of the company. **(5 marks)**

4. (a) How does the financial decision-making involve a risk-return trade-off? **(10 marks)**

4. **(b)** Explain how the scope of the finance function has changed over time. What role does a finance manager play in a modern firm? **(5 marks)**

5. **(a)** A firm had paid dividend at __2 per share last year. The estimated growth of the dividends from the company is estimated to be 5% p.a. Determine the estimated market price of the equity share if the estimated growth rate of dividends (i) rises to 8% and (ii) falls to 3%. Also find out the present market price of the share, given that the required rate of return of the equity investors is 15.5% and comment. **(10 marks)**

5. **(b)** Explain any one of the cash management techniques: Lock Box System or Concentration Banking. **(5 marks)**

6. **(a)** The management of Royal Industries has called for a statement showing the working capital to finance a level of activity of 1,80,000 units of output for the year. The cost structure for the company's product for the above-mentioned activity level is detailed below:**(10 marks)**

	Cost per unit
Raw Material	Rs 20
Direct Labour	Rs 5
Overheads (including depreciation of Rs 5 per unit)	Rs 15
Total	Rs 40
Profit	Rs 10
Selling Price	Rs 50

Additional information:

(*a*) Minimum desired cash balance is Rs 20,000.

(*b*) Raw materials are held in stock, on an average, for two months.

(*c*) Work-in-progress (assume 50% completion stage in respect of all elements) will approximate to half-a-month's production.

(*d*) Finished goods remain in warehouse, on an average, for a month.

(*e*) Suppliers of materials extend a month's credit and debtors are provided two month's credit; cash sales are 25% of total sales.

(*f*) There is a time-lag in payment of wages of a month; and half-a-month in the case of overheads.

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

6. **(b)** What do you mean by EOQ? Discuss the assumptions underlying the basic EOQ Model. **(5 marks)**