

2021

FINANCIAL MANAGEMENT — HONOURS

Eighth Paper

(A-34-A)

[Accounting and Finance Group]

Full Marks : 100

The figures in the margin indicate full marks.

*Candidates are required to give their answers in their own words
as far as practicable.*

Group-A

1. Why is 'Wealth Maximisation' preferred over 'Profit Maximisation' as the goal of a firm? 5

2. Explain two basic functions of Financial Management. 5

Or,

What is the role of the Chief Financial Officer in taking investment decisions for a firm? 5

3. Discuss the relationship between Risk and Return. 5

4. A van is purchased on instalment basis, such that Rs. 5,000 is to be paid on the signing of the contract and for the yearly instalments of Rs. 3,000 each payable at the end of the first, second, third and fourth year. If interest is charged at 5% per annum, what will be the cash down price?

$(PVIFA_{5\%,4}) = 3.546$ 5

5. Write a short note on importance of cash flow in capital budgeting decision. 5

Or,

Following are the details of three projects P, Q and R:

Particulars	P	Q	R
Cost (Rs.)	80,000	1,00,000	1,50,000
Life (in years)	7	10	12
Annual profit after tax (Rs.)	6,000	16,000	15,000
Estimated salvage value (Rs.)	10,000	20,000	30,000

Compute pay-back period and comment on the result. 5

Please Turn Over

6. Write a short note on Capital Rationing.

5

Or,

Anita enterprise intends to invest Rs. 14,00,000 in a project having life of 4 years. The cash inflows from the project at the end of year one to the fourth year are expected as Rs. 6,20,000, Rs. 6,35,000, Rs. 6,10,000 and Rs. 4,35,000 before charging depreciation and tax@ 50%. You are required to calculate the accounting rate of return (ARR) of the project.

5

Group-B

7. Mr. Bhusan plans on commencing a new trading business. Particulars about the proposed business are estimated as below:

- (a) Expected annual sales Rs. 18,00,000 (50% of sales made on credit)
 (b) Estimated rate of profit on cost of goods sold 20%
 (c) Fixed expenses are estimated to be Rs. 3,000 per month and variable administration and selling expenses are expected to be 5% of his turnover.
 (d) Estimated turnover:
 (i) Stock turnover 4 times a year;
 (ii) Debtors turnover 6 times a year.
 (e) Total purchase during the year amounted to Rs. 18,75,000 (70% of purchase made on credit).
 However, one month's credit for purchases will be available.
 (f) The sales and purchases will be evenly spread throughout the year.

Determine the working capital requirement for the business.

10

8. (a) What do you mean by permanent and temporary working capital? 5
 (b) Length of operating cycle is the major determinant of the working capital needs of a business firm — Explain. 5

9. The management of Aditi Co. Ltd. proposes to purchase a new machine. Two alternative machines X and Y are available—Machine X has an initial investment of Rs. 1,00,000 and Machine Y Rs. 60,000. From the following information, state which alternative you consider financially preferable: 10

	Machines	
	X	Y
Initial investment (Rs.)	1,00,000	60,000
Estimated life (in years)	5	5
Estimated annual cash inflows:		
Year 1	Rs. 30,000	Rs. 10,000
Year 2	Rs. 35,000	Rs. 15,000
Year 3	Rs. 40,000	Rs. 25,000
Year 4	Rs. 25,000	Rs. 25,000
Year 5	Rs. 40,000	Rs. 25,000

The rate of return may be taken as 15%.

Or,

Explain when capital rationing is applicable. How will you allocate fund to different projects in such a situation? 10

10. A firm has sales of Rs. 5,00,000, variable cost of Rs. 3,50,000 and fixed cost of Rs. 1,00,000 and a debt of Rs. 2,50,000 at a 10% rate of interest. What is combined leverage? If the firm wants to double its EBIT, how much of a rise in sales would be needed on a percentage basis? 10

Or,

Critically evaluate Modigliani and Miller theory on capital structure. 10

11. ABC Ltd. issues 14% debentures of face value of Rs. 100 each at a discount of 3% and the floatation cost is estimated to be 2%. The debentures are redeemable after 10 years at a premium of 10%, corporate tax rate is 50%, calculate the cost of debt. 10

Or,

What do you mean by public deposit? What are the advantages and disadvantages of raising funds by means of public deposit? 5+5

12. Give five important factors that a firm should consider in formulating the dividend policy. 10

Or,

(a) Give a brief note on Gordon's dividend policy.

- (b) A company has a book value per share of Rs. 137.80. Its return on equity is 15% and it follows a policy of retaining 60% of its earnings. If the opportunity cost of capital is 18%, calculate the price of the share today using Walter's Model. 5+5

13. Write short notes on— (a) Budgetary Control, (b) Return on Investment (ROI). 5+5
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