Unique Paper Code : **22411503**

Name of the Paper : **Financial Management**

Name of the Course : **B.Com (H)**

Semester : **V**

Duration : 3 Hours **Maximum Marks : 75**

Instructions for Candidates

Note: Answers may be written *either* in English or in Hindi; but the same medium should be used throughout the paper.

Attempt any four questions.

***All* questions carry equal marks.**

Q1. 'Wealth maximisation as the goal of financial management is superior to profit maximisation'. Do you agree? Explain.

Also explain whether Rs 100,000 received today is better than Rs 125,000 to be received 3 years from today? (Make your own assumption while explaining this)

Q2. Blue Diamond ltd is a marketing organisation that is considering launch of a product with two different strategies: Strategy A and Strategy B. It has to choose either of the two strategies. Both the strategies have initial outlay of Rs 20 crores but have different streams of cash inflows. Over the period of 5 years, the cash flows of the strategies are estimated as follows:

	Cash Flows in Lakhs of Rupees	
Year	Strategy A	Strategy B
0	-2000	-2000
1	500	1000
2	850	875
3	550	500
4	650	140
5	400	200

1. Find out the NPV of both the strategies at discount rates between 11% and 17% at the intervals of 2%.
2. Find IRR of both the strategies.
3. Which of the strategy is preferable if the cost of capital is 11% and 13% according to NPV method? Justify your answer.

Q3. All successful firms have equity as the predominant source of capital and their market values are always higher than the firms using debt in the same line of business. Since the debt has a cost and the equity has no apparent cost, the increased amount of equity would bring down the cost of capital and therefore maximise the value of the firm. Do you agree with the statements? Discuss.

Two firms X and Y are implementing the same project with debts of Rs. 500 lakhs and Rs 700 lakhs respectively. The cost of debt for X and Y are 12% and 15% respectively. The expected level of earnings before interest and taxes from these projects are Rs 300 Lakhs annually. Both the firms are subject to income tax at the rate of 35%.

1. Find the amount of earnings available for the shareholders of each firm.
2. Find out the value of equity, value of the firm and the overall cost of capital for both the firms on the basis of NI approach when costs of equity for firm X and firm Y are 22% and 24% respectively,

Q4. A firm has sales of Rs 75,00,000, variable cost of Rs 42,00,000 and fixed cost of Rs 6,00,000. It has 9% debt of Rs 45,00,000 and equity of Rs 55,00,000.

1. What is the operating, financial and combined leverages of the firm?
2. If the sales of the firm drop to Rs 50,00,000, what will be the new EBIT?
3. At what level of sales, EBT of the firm will be equal to Zero?

Also explain, what does the point of indifference on the EBIT-EPS analysis signify? What happens when the EBIT level of a firm is below the point of indifference?

Q5. A company sells its products @ Rs. 30 per unit with a variable cost of Rs. 20 per unit. The fixed cost amounts to Rs. 6,25,000 per annum and the total annual sales to Rs. 75,00,000. It is estimated that if the present credit facility of one month is extended to two months, sales will increase by Rs. 6,00,000 per annum. The company expects a minimum return of 20%. Advise whether this course can be adopted.

Also evaluate the following statement. "A credit department that never has a delinquent account is an asset to the firm".

Q6. Expanding corporation is providing 25% returns to its shareholders. The current market price of the shares is Rs 80 with 1.25 crore shares outstanding. The firm is expected to earn Rs. 4 crores in the year, while the investment requirement of the period is Rs. 6 crores. It has been distributing the dividends at 75% of its earnings. In view of its expansion requirement, it is exploring the preposition of skipping the dividend altogether for the year while mobilizing the remaining funds by issue of fresh shares. Examine the value of the firm (as per the MM Model)) when the firm (a) continues with the policy of paying 75% pay out (b) decided to skip the dividend for the year.