Set 1 (NC)

Unique Paper Code : 52417505

Name of the Course : B.Com

Semester : V

Name of the Paper : Fundamentals of Financial Management

Paper no. : BC 5.2(a)

Duration : 3 hours

Maximum Marks : 75 Marks

Attempt any four questions. All questions carry equal marks. Use of simple calculator is allowed.

1. "Profit Maximization should be the objective of Financial Management," Do you agree? Give reasons.

Mr. X financed his house by taking a loan of Rs. 71, 00,000 @ 10% p.a. and has paid Rs.15, 00,000 as down payment. The loan is to be repaid in 10 equal instalments starting at the end of the first year. Calculate the amount of equal annual instalment and total interest paid upon repayment of loan.

2. A project requires an initial investment of Rs.6, 00,000. It is estimated to have a life of 6 years. The estimated net cash flows are as under:

Year	Net Cash Flow (Rs.)
1	60,000
2	80,000
3	1,00,000
4	1,10,000

5	1,20,000
6	90,000

Hurdle rate is 10%. Calculate-

a. Payback period

b. Net Present Value

c. IRR of the project.

Assume that the standard payback period is 4 years. Should the project be accepted as per each of the above measures? In case of conflict in decision which method should be preferred and why?

Q3. How do book value weights differ from market value weights in measurement of cost of capital?

The following is the capital structure of PQR Ltd. :

Particulars	**Amount (Rs.)**
Equity Share Capital (Face Value Rs.10 per share)	20,00,000
10% Preference Share Capital (Face Value Rs.100 per share)	4,00,000
12% Debentures (Face Value Rs.100 per debenture)	16,00,000
Total	40,00,000

All these securities are traded in the capital market. Recent prices are: Debentures @ Rs.108 per debenture, Preference share @ Rs.125 per share, Equity shares @ Rs.50 per share. The company expects to pay a dividend of Rs. 5 per share at the end of the year which is expected to grow at 8% p.a. The company pays income tax @ 35% . Calculate the company's cost pf capital using book value weights and market value weights.

Q4. Explain and compare the 'Net Income' and 'Net Operating Income' approaches to capital structure and firm valuation using numerical example.

From the following information, calculate Operating Leverage, Financial Leverage and Combined Leverage :

Particulars	Amount (Rs.)
Sales	9,00,000
EBIT	2,40,000
EBT	1,25,000
Tax Rate	35%
Variable Cost	60% of sales

5. How can stability of dividend policy be maintained?

The following information is collected from the current annual report of XYZ Ltd :

Earning of firm	Rs. 9, 00,000
Number of equity shares	1, 50,000
Return on Equity	22.5%
Cost of equity	15%

What should be the dividend payout ratio so as to keep the share price at Rs. 48 by using Walter Model? Also, determine the optimum dividend payout ratio and the market price of share at the optimum dividend payout ratio. What will the maximum and minimum share price under this model?

6. What do you mean by operating cycle?

From the following information prepare a statement showing the estimated working capital requirement:

(1) Projected annual sales	36,000 units
(2) Analysis of sales	
Raw materials	Rs. 6 per unit
Labour	Rs. 4 per unit
Overhead	Rs. 3 per unit
Profit	Rs. 2 per unit

Selling price	Rs. 15 per unit

(3) Additional Information :

(a) Raw material in stock	1 month
(b) Production process	2 months
(c) Finished goods in store	3 months
(d) Credit allowed to debtors	4 months
(e) Credit allowed by suppliers	2 months

(f) Monthly wages and expenses are paid twice on 1st and 16th of each month.

(g) Production is carried on evenly during the year and expenses and wages accrue similarly.

(h) Cash is to be kept at 10% of the net working capital.