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3 SEM TDC FIMGT 2 (Sp) N/O

2017

(November)

COMMERCE

(Speciality)

Course : 302

(Financial Management)

The figures in the margin indicate full marks for the questions

(New Course)

Full Marks : 80

Pass Marks : 24

Time : 3 hours

1. *(a)* Write True or False : 1×4=4

   (i) Increased use of debt increases the financial risk of equity shareholders.

   (ii) Corporation finance is a part of public finance.

(iii) Composite cost refers to the cost of equity and preference share capital.

(iv) The fixed proportion of working capital should be generally financed from the fixed capital sources.

(b) Fill in the blanks : 1×4=4

(i) Payment of dividend involves legal as well as ____ considerations.

(ii) Capital budgeting is the process of making investment decisions in ____ expenditure.

(iii) Fixed cost bearing securities should be mixed with equity when the rate of earning is ____ than the rate of interest of the company.

(iv) Working capital is also known as ____ capital.

2. Write short notes on any *four* of the following : 4×4=16

(a) Aims of finance function

(b) Capital gearing

(c) Estimate of working capital requirement

(d) Optimal payout ratio

(e) Net present value as a technique of capital budgeting

(f) Optimal capital structure

3. (a) "Profit maximization is not the adequate criterion to judge the efficiency of a firm." Explain the statement. What should be the right criterion and why? 6+8=14

Or

(b) Critically analyze the functions of a financial manager in a large-scale industrial establishment. What are the responsibilities of a financial manager in a modern business organization? 8+6=14

4. (a) What are the advantages of adequate working capital? What shall be the repercussions if a firm has (i) redundant working capital and (ii) inadequate working capital? 6+4+4=14

Or

(b) The following information has been extracted from the Cost Sheet of Dot Com Co. Ltd. :

	₹ (Per unit)
Raw materials	45
Direct labour	18
Overhead (including depreciation of ₹ 10)	40
Total cost	103
Profit	17
Selling price	120

The following further information is available :

(i) Raw materials are in stock on an average of one month

(ii) The materials are in progress on an average for half a month (100% complete in regard to materials and 50% for labour and overheads)

(iii) Credit allowed by suppliers is one month

(iv) Time lag in receipts of proceeds from debtors is two months

(v) Average time lag in payment of overheads is one month

(vi) 30 percents of sales are on cash basis

(vii) The company expected to keep a cash balance of ₹ 1,00,000

(viii) Time lag in payment of wages is 10 days

(ix) Finished goods lie in warehouse for half a month

Prepare the working capital needed to finance a level of activity of 45000 units of output. Production is carried on evenly throughout the year, and wages and overhead accrue similarly. 14

5. *(a)* *(i)* Define capital structure. What is optimal capital structure? 3+5=8

(ii) A Company Ltd. has a share capital of ₹ 1,00,000 divided into shares of ₹ 10 each. It has major expansion programme requiring an investment of another ₹ 50,000. The management is considering the

following alternatives for raising this amount :

(1) Issue of 5000 shares of ₹ 10 each

(2) Issue of 5000, 12% preference shares of ₹ 10 each

(3) Issue of 10% debentures of ₹ 50,000

The company's present earning before interest and tax (EBIT) is ₹ 30,000 p.a.

You are required to calculate the effect of each of the above modes of financing on the earning per share (EPS) presuming EBIT continues to be the same even after expansion (Assume tax liability at 50%). 6

Or

(b) What is meant by cost of capital? What are the components of the cost of capital? What is the cost of retained earnings? How is the cost of new equity issues determined? 3+3+4+4=14

6. *(a)* *(i)* What is dividend? Discuss the various forms of dividend. 2+5=7

(ii) What do you understand by stable dividend policy? Why should it be followed? 2+5=7

Or

(b) In Walter's approach, the dividend policy of a firm depends on availability of investment opportunity and the relationship between the firm's internal rate of return and its cost of capital. Discuss. What are the shortcomings of this view? 14