Exam. Code : 108503
Subject Code : 2080

B.Com. 3rd Semester
FINANCIAL MANAGEMENT
Paper—BCG-305

Time Allowed—3 Hours] [Maximum Marks—50

Note :— Attempt *five* questions selecting at least *one* question from each section. The **fifth** question may be attempted from any section. Each question carries **10** marks.

SECTION—A

1. (a) A company issues Rs. 10,00,000 10% redeemable debentures at a discount of 5%. The costs of floatation amount to Rs. 30,000. The debentures are redeemable after 5 years. Calculate before-tax and after-tax cost of debt assuming a tax rate of 50%.

   (b) The shares of a company are selling at Rs. 40 per share and it had paid a dividend of Rs. 4 per share last year. The investor's market expects a growth rate of 5 percent per year. Compute the company's equity cost of capital. 5–5

2. (a) "A rational human being has time preference for money." Give reasons.

   (b) Differentiate between long term financing through Owned capital and Borrowed capital. 5–5

SECTION—B

3. An income statement of XYZ Ltd. is given below. Calculate operating leverage, financial leverage and combined leverage.

Income Statement of XYZ

for the year ended 31st March 2018

Sales	10,50,000
Variable Cost	7,67,000
Fixed Cost	75,000
EBIT	2,08,000
Interest	1,10,000
Taxes (30%)	29,400
Net Income	68,600

10

4. What is optimal capital structure ? Elaborate various theories of capital structure. 10

SECTION—C

5. From the following details you are required to estimate net working capital :

Items	**Cost per unit**
Raw Materials	400
Direct Labour	150
Overheads (excluding depreciation)	300
Total Cost	**850**

Additional information :	
Selling Price	Rs. 1,000 per unit
Output	52,000 units p.a.
Raw material in stock	Average 4 weeks
Work-in-process : (assume 50% completion stage with full material consumption)	Average 2 weeks
Finished goods in stock	Average 4 weeks
Credit allowed by suppliers	Average 4 weeks
Credit allowed to debtors	Average 8 weeks
Cash at Bank is expected to be	Rs. 50,000

Assume that the production is sustained at an even pace during 52 weeks of the year. All sales are on credit basis. State any other assumption that you might have made while computing. 10

6. (a) What do you mean by working capital ? Explain the concepts of working capital. 5

   (b) Discuss briefly the 'Matching' and 'Conservative' strategy of financing current assets. 5

SECTION—D

7. A company is considering an investment proposal to install new milling controls at a cost of Rs. 50,000. The facility has a life expectancy of 5 years and no salvage value. The tax rate is 35 percent. Assume the

firm uses straight line depreciation and the same is allowed for tax purposes. The estimated cash flows before depreciation and tax (CFBT) from the investment proposal are as follows :

Year	CFBT (Rs.)
1	10,000
2	10,692
3	12,769
4	13,462
5	20,385

Compute the following :

(i) Pay-back period

(ii) Average rate of return

(iii) Internal rate of return

(iv) NPV at 10 percent discount rate. 3+1+3+3

8. What are the assumptions which underlie Walter and Gordon's model of dividend effect ? Does dividend policy affect the value of firm under Gordon's model ? Explain with example. 4+6