

M.Com. (HPP) Semester-I Examination
(Department of Finance and Financial Services / Adv. Accounting & Auditing)
CC 1 : Financial Management

Time : 2-00 Hours]

March 2021

[Max. Marks : 50

SECTION : I

(Attempt any TWO questions out of FOUR questions from section I)

Q.1(A) Explain the Modern Approach of finance function. 10(B) Explain the wealth maximisation concept. 10**Q.2**

(A)

- (i) Find out the future value if Mr. Kush deposits today ₹60,000 for 3 years @ interest rate of 5% and the compounding is done Semi annually.

Compounding Factor :

$$(1 + 0.025)^6 = 1.1597$$

- (ii) An investor is likely to retire at the end of the 5
- th
- year. In order to receive ₹5,00,000 annually for 5 years after the date of retirement, how much amount should he have at the time of retirement? Interest rate is 6% compounded annually.

Present Value Annuity Factor for 6%:

PVAF (1-5) = 4.2124

PVAF (6-10) = 3.1477

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(B) The rate of return and probability in different situations for investment in a security is available as under.

Situation	Probability	Rate of return
A	0.20	12%
B	0.50	15%
C	0.30	20%

You are required to calculate mean (expected return) and standard deviation (risk). 10**Q.3**

(A) RM Limited is considering the purchase of a new automatic machine which will carry out some operations which are at present performed by manual labour. X and Y two alternative models are available in the market. The following details are collected :

	Machine	
	X	Y
Cost of Machine (₹)	10,00,000	12,00,000
Estimated working life	4 Years	4 Years

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Estimated saving in direct wages per annum (₹)	3,75,000	4,50,000
Estimated saving in scrap per annum (₹)	30,000	60,000
Estimated additional cost of indirect material per annum (₹)	20,000	40,000
Estimated additional cost of indirect labour per annum (₹)	25,000	30,000
Estimated additional cost of repair and maintenance per annum (₹)	25,000	40,000

Depreciation will be charged on a straight line method. Corporate tax rate is 30 percent and expected rate of return may be 15 percent. You are required to evaluate the alternatives by calculating the :

- (1) NPV method,
- (2) Profitability Index and
- (3) Payback Period Method.

(P.V. factor for ₹ 1 @ 15% 0.869; 0.756; 0.657; 0.572) and PVAF₍₁₋₄₎=2.8550

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(B) From the following information of RS Ltd., you are required to calculate :

- (a) Net operating cycle period.
- (b) Number of operating cycles in a year.

		₹
(i)	Raw material inventory consumed during the year	6,00,000
(ii)	Average stock of raw material	50,000
(iii)	Factory cost of goods manufactured	5,00,000
(iv)	Average work-in-progress inventory	30,000
(v)	Cost of goods sold	8,00,000
(vi)	Average finished goods stock held	40,000
(vii)	Average collection period from debtors	45 days
(viii)	Average credit period availed	30 days
(ix)	No. of days in a year	360 days

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Q.4

(A)

- (i) S Ltd. is planning to issue ₹ 20,00,000 11% debentures of ₹ 100 each at 15% Premium. The debentures are redeemable at par after the expiry period of 4 years. The Company is in 30% tax bracket. Calculate the cost of debt after tax, if the floatation cost is 5% of the face value.

- (ii) Yes Ltd. retains ₹ 8,00,000 out of its Current Earnings. The expected rate of return to the Shareholders, if they had invested their funds elsewhere is 15%. Brokerage is 4%, and the Shareholders come in 20% tax bracket. Calculate Cost of Retained Earnings.

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(B)

The following are the financial data of P Ltd.

	P Ltd. (₹)
Variable Cost	14,000
Fixed Cost	5,000
Interest Expenses	3,000
Financial Leverage	4 : 1
Income Tax Rate	30%

You are required to calculate :

- (1) Operating Leverage,
- (2) Total Leverage,
- (3) Sales amount,
- (4) EPS if number of Equity Shares are 1,000.

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SECTION : II

(Attempt any FIVE MCQs out of given from section II)

Q.5 Select the appropriate alternative:

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- (1) The investment decisions should aim at investment in project only when they expect higher return than _____.
 - a) Interest rate
 - b) Internal rate of return
 - c) Growth rate
 - d) Hurdle rate
- (2) Liquidity and profitability are _____ goals for the finance manager.
 - a) Competing
 - b) Different
 - c) Separate
 - d) Finance
- (3) The function of finance manager is _____.
 - a) Procurement of finance
 - b) Distribution of finance

- c) Estimate needs of finance
 - d) All of the above
- (4) If the risk free return is 8%, beta value is 1.8 and market rate of return is 14%, the expected rate of return would be :
- (a) 18.8%
 - (b) 17.5%
 - (c) 20.2%
 - (d) None of the above
- (5) What is the relation between profitability and risk?
- (a) Absence of relation
 - (b) Inverse
 - (c) Positive
 - (d) All of these
- (6) The portfolio analysis begins where the ends.
- (a) business risk
 - (b) financial risk
 - (c) market risk
 - (d) security analysis
- (7) NPV method stands for
- (a) Net Profit Value
 - (b) Net Present Value
 - (c) Net Perfect Value
 - (d) None of above
- (8) _____ capital is considered in analysis of cost of capital.
- (a) Long term capital
 - (b) Short term capital
 - (c) Both (a) and (b)
 - (d) Cost of sales
- (9) When cost of capital of a project is equal to its Internal Rate of Return(IRR)
- (a) NPV will be zero.
 - (b) NPV will be +ve.
 - (c) NPV will be -ve.
 - (d) Benefit cost ratio will be zero.

- (10) Cost of capital may be defined as:
- (a) Weighted Average cost of all debts
 - (b) Rate of Return expected by Equity Shareholders
 - (c) Average IRR of the Projects of the firm
 - (d) Minimum Rate of Return that the firm should earn
- (11) At Indifference level of EBIT, different capitals have:
- (a) same EBIT
 - (b) same EPS
 - (c) same PAT
 - (d) same PBT
- (12) _____ is the Irrelevance theory of Dividend Decision.
- (a) Walter model
 - (b) MM approach
 - (c) David Durand
 - (d) Linter Model
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