S/41

0501E974

Candidate's Seat No :__________

M.Com HPP (FFS) Sem.-1 Examination

CC - 1

Financial Mgmt

January-2024

Time : 2-30 Hours] **[Max. Marks : 70**

Q.1

(A) Explain the importance of financial management. 7

(B) Explain the role of Finance Executive in today's world. 7

OR

Q.1

(A) What is Wealth maximisation concept in finance? Explain. 7

(B) Explain Modern approach of finance. 7

Q.2

The rate of return from investment proposal Equity Fund and Hybrid Fund as well as probability for such return from different situations are given below. Select the best proposal based on risk and return analysis.

Situation	Probability	Rate of return from Proposal- Equity Fund	Rate of return from Proposal- Hybrid Fund
Best	0.30	25%	30%
Moderate	0.50	15%	20%
Worst	0.20	10%	10%

14

OR

Q.2

(A) Shivani borrowed ₹80,000 for 6 years from a financial institution. The compound interest rate is 5% for the first two years, 7% for the next 3 years and 8% for the last year. What amount will Shivani return to the financial institution at the end of the period?

Future value from compounding table:

$(1 + 0.05)^2 = 1.1025$, $(1 + 0.07)^3 = 1.225043$, $(1 + 0.08)^1 = 1.08$ 7

(B) If Kuldip invests ₹1,00,000 at an interest rate of 10 % per annum, what is the amount after 4 years if the compounding of interest is done:

(i) Annually
(ii) Half yearly
(iii) Quarterly

Future value from compounding table:

$(1 + 0.10)^4 = 1.4641$, $(1 + 0.05)^8 = 1.477455$, $(1 + 0.025)^{16} = 1.484506$ 7

P.T.O

E 97u-2

Q.3

(A) Explain the factors affecting Working Capital estimation. 7

(B) Following information is forecasted by the Rutva Limited for the year ending 31-03-2023:

	1st April, 2022	31st March, 2023
	₹	₹
Raw Material	45,000	65,000
Work-in-progress	35,000	52,000
Finished goods	60,000	70,000
Debtors	1,10,000	1,35,000
Creditors	50,000	70,000
Annual purchases of raw material (all credit)		4,20,000
Annual cost of production		7,60,000
Annual cost of goods sold		9,20,000
Annual operating cost		9,70,000
Annual sales (all credit)		12,00,000

You may take one year as equal to 360 days. You are required to calculate:

(i) Net operating cycle period.

(ii) Number of operating cycles in the year. 7

OR

Q.3

Madhu Ltd. has decided to invest into a project. The relevant data about this project are as follow:

Cost of Project	₹20,00,000
Useful life of the project	4 Years
Tax Rate	40%
Expected Salvage at the end of life	₹4,00,000

Profit after charging depreciation and before tax is as follows:

Year	**1**	**2**	**3**	**4**
Profit after depreciation and before tax (₹)	8,00,000	6,00,000	6,00,000	4,00,000

Present value of ₹1 at discount rate are as follows:

Year	1	2	3	4
Present Value at 10% (Ko): Discounting rate of Project	0.909	0.826	0.751	0.683
Present Value at 20%	0.833	0.694	0.579	0.482
Present Value at 30%	0.769	0.592	0.455	0.350

Required to calculate:

(i) Internal Rate of return.

(ii) Average Rate of return.

(iii)Net Present Value.

(iv)Profitability Index. 14

Q.4

(A) Explain the concept of Indifference EBIT and Financial EBIT. 7

E 974 — 3

(B) Following are the details regarding three companies P Ltd, Q Ltd and Y Ltd.

	P Ltd	Q Ltd	Y Ltd
r (rate of return)	15%	10%	8%
Ke (cost of capital)	10%	10%	10%
E (E.P.S.)	₹ 8	₹ 8	₹ 8

Calculate the value of an equity share using Walter model and Gordon Model if Dividend pay-out ratio is 50%.

7

OR

Q.4

(A) The following financial data are of A Ltd. and B Ltd.:

	A Ltd. (₹)	B Ltd. (₹)
Variable Cost	55,000	60% of sales
Fixed Cost	20,000	?
Interest Expenses	12,000	4,500
Financial Leverage	5 : 1	-
Operating Leverage	-	4 : 1
Income Tax Rate	30%	30%
Sales	?	60,000

Prepare Income Statements for both the companies from the above details. 7

(B)

Sunita Limited wants to raise an additional finance of ₹20,00,000 for meeting its investment plan. It has ₹4,00,000 in the form of retained earnings available for investment purposes. The following are the further details:

(1)	Debt/equity mix	40%: 60%
(2)	Cost of debt	
	upto ₹5,00,000	10% (before tax)
	beyond ₹5,00,000	12% (before tax)
(3)	Earnings per share	₹ 10
(4)	Dividend pay-out ratio	50% of earnings
(5)	Expected growth rate in dividend	10%
(6)	Current market price per share	₹ 55
(7)	Tax rate	30%
(8)	Personal Tax rate of the investor	10%

You are required to compute the overall weighted average after tax cost of additional Finance.

7

Q.5

Select the appropriate alternative: **(Attempt any Seven out of given)** **14**

(1) Which of the followings is the sources of funds?

(a) Issue of bonus shares

(b) Issue of shares against the purchase of fixed assets

(c) Conversion of debentures into shares

(d) None of the above.

P.T.O

E 974-4

(2) Long-term capital is always considered in analysis of__________.
(a) Cost of capital
(b) Current ratio
(c) (a) and (b) both
(d) Quick ratio

(3) When Profitability Index (PI) is equal to ONE, then;
(a) NPV will be zero.
(b) NPV will be +ve.
(c) NPV will be -ve.
(d) None of the above

(4) _____is the irrelevance theory of Dividend Decision.
(a) Walter model
(b) M-M approach
(c) Gordon Model
(d) None of the above

(5) Which Leverage shows the impact of % change in EBIT on % change in EPS?
(a) Degree of Financial Leverage (DFL)
(b) Degree of Operating Leverage (DOL)
(c) Degree of Combined Leverage (DCL)
(d) None of the above

(6) As per Dividend Policy a company is considered as the Normal Company if:
(a) $r > ke$
(b) $r < ke$
(c) $r = ke$
(d) $r > kp$

(7) At Financial EBIT, EPS under given any plan will be___.
(a) Zero
(b) Equal
(c) One
(d) None of the above

(8) Lower the discount rate, ____________ the Profitability Index.
(a) Lower
(b) Higher
(c) Fixed
(d) Speedy

(9) For the Growing company as per Dividend Policy, the Optimum Pay-out ratio would be :
(a) 0%
(b) 10%
(c) 20%
(d) 100%

E 974 – 5

(10) If the risk-free return is 4%, beta value is 2 and market rate of return is 12%, the expected rate of return would be:
(a) 18%
(b) 17%
(c) 20%
(d) None of the above

(11) The only feasible purpose of Finance Management is ____
(a) Wealth Maximisation
(b) Profit Maximization
(c) Sales Maximization
(d) Asset Maximization

(12) Net working capital = ___________
(a) Total assets less fixed assets
(b) Current assets
(c) Current assets less current liabilities
(d) None of the above

—x—