

MCom (HPP) Sem.-1 AAA Examination

CC-1

Financial Management

February-2025

Time : 2-30 Hours]

[Max. Marks : 70

Q.1

- (A) Explain the role of Finance Executive in today's world. 7
- (B) Explain the Objectives of financial management. 7

OR

Q.1

- (A) Explain the importance of financial management. 7
- (B) What is Wealth maximisation concept in finance? Explain. 7

Q.2

(A) Mrunal wants to retire and receive ₹ 50,000 a month. He wants to pass this monthly payment to future generations after his death. He can earn an interest of 8% p.a. compounded monthly. How much will he need to set aside to achieve his perpetuity goal?

In above case if he wants to receive ₹ 6,00,000 per annum with an interest of 8% p.a. compounded annually then, how much will he need to set aside to achieve his perpetuity goal? 7

(B) If ₹80,000 is invested at an interest rate of 12% per annum, what is the amount after 3 years if the compounding of interest is done:

- (i) Annually
(ii) Semi-annually
(iii) Quarterly

Future value from compounding table:

$$(1 + 0.12)^3 = 1.404928, (1 + 0.06)^6 = 1.418519, (1 + 0.03)^{12} = 1.425761 \quad 7$$

OR

Q.2

The rate of return from investment proposal X and Y as well as probability for such return from different environment are given below. Find out the expected rate of return and standard deviation from both the proposals.

Environment	Probability	Rate of return from Proposal-X	Rate of return from Proposal-Y
Recession	0.25	12%	8%
Moderate	0.60	16%	15%
Best	0.15	26%	25%

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Q.3 Bansi Ltd. has decided to invest into a project. The relevant data about this project are as follow:

Cost of project	₹40,00,000
Tax Rate	30%

Profit before tax is as follows:

Year	1	2	3	4
Profit before tax (₹)	16,00,000	12,00,000	12,00,000	8,00,000

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

Year	1	2	3	4
Present Value at 10% (K _o): Discounting rate of Project	0.909	0.826	0.751	0.683

Required to calculate:

- (i) Net Present Value.
- (ii) Profitability Index.
- (iii) Average Rate of return.
- (iv) Payback period.

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OR

Q.3 A proforma cost sheet of Pingu Ltd. provides the following data:

Particulars	Per unit (₹)
Raw material	117.00
Direct Labour	49.00
Factory overheads	98.00
Total cost	264.00
Profit	36.00
Selling price	300.00

Following additional information is available:

Average raw material in stock	:	4 weeks
Average work-in-process stock (WIP is 50% completed in all respect)	:	2 weeks
Finished goods in stock	:	3 weeks
Credit period allowed to debtors	:	6 weeks
Credit period availed from suppliers	:	8 weeks
Time lag in payment of wages	:	1 week
Time lag in payment of overheads	:	2 weeks

The company sells 20% of the output against cash and maintains cash balance of ₹ 2,50,000.

Required:

Prepare a statement showing estimate of working capital needed to finance a budgeted activity level of 80,000 units of production. You may assume that production is carried on evenly throughout the year and wages and overheads accrue similarly.

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Q.4 Aneri Limited wishes to raise additional finance of ₹20,00,000 for meeting its investment plans. 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 14% (before tax)

(3) Earnings per share	₹ 10
(4) Dividend payout	40% of earnings
(5) Expected growth rate in dividend	10%
(6) Current market price per share	₹ 88
(7) Tax rate	30%
(8) Personal Tax rate of the investor	10%

You are required:

- (a) To determine the pattern for raising the additional finance.
 (d) Compute the overall weighted average after tax cost of additional Finance. **14**

OR

Q.4

(A) Calculate the EBIT indifference point between the following financing alternatives:

Alternative:1

Equity share capital of ₹ 4,00,000, 14% preference share capital of ₹ 2,00,000 and 12% debentures of ₹ 4,00,000.

Alternative:2

Equity share capital of ₹ 6,00,000 and 12% debentures of ₹ 4,00,000.

Assume the corporate tax rate is 50% and face value of equity share is ₹ 10 in each case.

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(B) The Balance Sheet of Mohan Ltd. is given below:

Equity & Liabilities		(₹)
Shareholders' fund		
Equity share capital of ₹10 each	₹ 3,60,000	
Retained earnings	₹ 1,20,000	4,80,000
Non-current liabilities: 10% debt		4,80,000
Current liabilities		2,40,000
		12,00,000
Assets		
Fixed Assets		9,00,000
Current Assets		3,00,000
		12,00,000

The company's total asset turnover ratio is 4. It's fixed operating fixed cost is ₹ 4,00,000 and its variable operating cost ratio is 60%. The income tax rate is 30%.

You are required to calculate the Degree of Operating leverage and the Degree of Financial leverage.

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Q.5

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

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(1) Lower the discount rate, _____ the Profitability Index.

- (a) Lower
 (b) Higher
 (c) Fixed
 (d) Speedy

(2) Working capital is also known as _____

- (a) Large capital

- (b) Circulating capital
 - (c) Both (a) and (b)
 - (d) Small capital
- (3) Long-term capital is always considered in analysis of _____.
- (a) Cost of capital
 - (b) Current ratio
 - (c) (a) and (b) both
 - (d) Quick ratio
- (4) 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
- (5) _____ is the irrelevance theory of Dividend Decision.
- (a) Walter model
 - (b) M-M approach
 - (c) Gordon Model
 - (d) None of the above
- (6) 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
- (7) 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
- (8) The only feasible purpose of Finance Management is _____
- (a) Wealth Maximization
 - (b) Profit Maximization
 - (c) Sales Maximization
 - (d) Asset Maximization
- (9) As per Dividend Policy a company is considered as the Growing Company if:
- (a) $r > k_e$
 - (b) $r < k_e$
 - (c) $r = k_e$
 - (d) $r > k_p$
- (10) Certain amount of working capital is required for continuity of the production process it is working capital throughout life of the business.
- (a) Permanent

- (b) Special
- (c) Seasonal
- (d) Flexible

(11) _____ carries a specific interest rate called Coupon Rate.

- (a) Bond
- (b) Equity share
- (c) Preference share
- (d) None of the above

(12) For the Declining company as per Dividend Policy, the Optimum Pay-out ratio would be:

- (a) 0%
- (b) 10%
- (c) 20%
- (d) 100%
