

**2 0 1 5**

( 1st Semester )

**COMMERCE**

( Honours )

Paper No. : BCAF-01

( **Financial Management** )

*Full Marks : 70*

*Pass Marks : 45%*

*Time : 3 hours*

*The figures in the margin indicate full marks  
for the questions*

Answer **all** questions

1. (a) Define Financial Management. Discuss the goals and objectives of Financial Management. 2+12=14

Or

- (b) What is Capital Budgeting? For each of the following, compute—  
(i) payback period;  
(ii) part payback profitability;

(iii) post-payback profitability index :

5+9=14

Project—1 :

Investment—₹ 1,00,000

Annual cash inflow

First 3 years—₹ 25,000

Next 5 years—₹ 10,000

Estimated life of the project—8 years

Project—2 :

Investment—₹ 1,00,000

Annual cash inflow—₹ 20,000

Estimated life of the project—8 years

2. (a) What is meant by cost of capital?  
Explain the problems in determination  
of cost of capital. 2+12=14

Or

- (b) Define weighted average cost of capital.  
Explain the rational behind the use of  
weighted average cost of capital. 4+10=14

3. (a) Distinguish between Operating leverage  
and Financial leverage. Discuss the  
relation between debt financing and  
financial leverage. 8+6=14

Or

- (b) A firm is considering two financial plans with a view to examine their impacts on Earnings Per Share (EPS). The total funds required for investment in assets are ₹ 2,50,000 :

<i>Financial Plans</i>	<i>Plan-I</i>	<i>Plan-II</i>
Debt (interest @ 10% p.a.)	2,00,000	50,000
Equity Share (₹ 10 each)	50,000	2,00,000
Total financial required	<u>2,50,000</u>	<u>2,50,000</u>
No. of equity shares	10,000	40,000

The earning before interest and tax are assumed as ₹ 25,000, ₹ 50,000 and ₹ 1,00,000. The rate of tax be taken at 50%. Comment.

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4. (a) Define capital structure. What are the major determinants of capital structure? 4+10=14

Or

- (b) Compute the market value of the firm, value of shares and the average cost of capital from the following information : 14

Net operating income—₹ 2,00,000

Total investment—₹ 10,00,000

Equity capitalization rate :

(1) If the firm uses no debt—10%

(2) If the firm uses ₹ 4,00,000 debenture—11%

(3) If the firm uses ₹ 6,00,000 debenture—13%  
Assume that ₹ 4,00,000 debenture can  
be raised at 5% rate of interest whereas  
₹ 6,00,000 debenture can be raised at  
6% rate of interest.

5. (a) What is inventory management? What  
are the tools and techniques of  
inventory management? 4+10=14

Or

- (b) A proforma cost sheet of a company  
provides the following particulars :

<i>Particulars</i>	<i>Amount per unit</i>
	₹
Raw Material	80
Direct Labour	30
Overheads	60
Total Cost	<u>170</u>
Profit	30
Selling Price	<u>200</u>

The following further particulars are  
available :

- (i) Raw materials are in stock on an  
average for one month  
(ii) Work-in-progress on an average for  
half a month

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- (iii) Finished goods are in stock on an average for 1 month
- (iv) Credit allowed to customers is two months
- (v) Credit allowed by suppliers is one month
- (vi) Lag in payment of wages is  $1\frac{1}{2}$  weeks
- (vii) Lag in payment of overhead expenses is one month
- (viii)  $\frac{1}{4}$ th of the output is sold against cash
- (ix) Cash in hand and at bank is expected to be ₹ 25,000

You are required to prepare a statement showing the working capital needed to finance a level of activity of 104000 units of production.

You may assume that production is carried on evenly throughout the year. Wages and overheads accrue similarly and a time period of 4 weeks is equivalent to a month.

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