'समानो मन्त्रः समितिः समानी'

UNIVERSITY OF NORTH BENGAL

B.Com. Honours 5th Semester Examination, 2023

CC12-COMMERCE

FUNDAMENTALS OF FINANCIAL MANAGEMENT

Time Allotted: 2 Hours Full Marks: 60

The figures in the margin indicate full marks.

GROUP-A

Answer any *two* questions 12×2 = 24

1. (a) What is 'Time Value of Money'? Explain the relationship between 'Risk' and 'Return'. 2+4

(b) Why is the 'wealth maximisation' objective considered better than the 'profit maximisation' objective? 6

2. Nadir Ltd. is considering as to which of two mutually exclusive projects it should undertake. 4+6+2

The company anticipates a cost of capital of 10% and the net after-tax cash flows of the project are as follows:

Year	Cash Flows	
	Project X (₹)	Project Y (₹)
0	(2,00,000)	(2,00,000)
1	35,000	2,18,000
2	80,000	10,000
3	90,000	10,000
4	75,000	4,000
5	20,000	3,000

The discount factors are:

Year	0	1	2	3	4	5
Discount Factors:						
10%	1	0.91	0.83	0.75	0.68	0.62
20%	1	0.83	0.69	0.58	0.48	0.41

You are required to:

(i) Calculate the NPV and IRR of the project

(ii) State, with reasons, which project you would recommend?

3. (a) What do you understand by the concept of 'Operating Cycle'? 2

(b) The following information is available from the annual accounts of Dobby Ltd: 10

Elements	₹ (per unit)
• Raw Materials	8
• Direct Labour	2
• Overhead	6
Total Cost	**16**
Profit	4
Selling Price	**20**

Additional Information:

(i) Raw materials are in stock, on average one month.
(ii) Materials are in process, on average half a month.
(iii) Finished goods are in stock, on average, 6 weeks.
(iv) Credit allowed by creditors is 1 month.
(v) Credit allowed to Debtors is 2 months.
(vi) Lag in payment of wages is 1.5 weeks.
(vii) Cash in hand and at bank is expected to be ₹7,300.

Assuming that production is carried on evenly throughout the year and wages and overheads accrue similarly.

You are required to prepare a statement showing the working capital requirement to finance a level of activity of 5,200 units of output.

4. (a) Following information is available for XY Ltd. (Capital structure): 4+4

	(₹)
Equity Share Capital (40,000 shares)	8,00,000
6% Preference Shares	2,00,000
8% Debentures	6,00,000
	16,00,000

The market price of equity share is ₹20. It is expected that the company will pay a current dividend of ₹2 per share which will grow at 7% for ever. Rate of tax may be taken at 50%.

You are required to compute:

(i) Weighted Average Cost of Capital (WACC) based on existing Capital structure.

(ii) The revised 'WACC' if the company raises an additional fund of ₹4,00,000 debt by issue of 10% Debentures. This would result in increasing the expected dividend to ₹3 and the level of growth rate unchanged but the price of the share will fall to ₹15 per share.

(b) The Balance Sheet of XY Ltd. is: 4

Liabilities	(₹)	Assets	(₹)
Share Capital	60,000	Net Fixed Asset	1,50,000
10% Debentures	80,000	Current Assets	50,000
Retained Earnings	20,000		
Current Liabilities	40,000		
	2,00,000		**2,00,000**

The company's total assets turnover ratio is 3 times. Its fixed operating costs are 1,00,000 and its variable operating cost ratio is 40%. The income-tax rate is 50%.

You are required to compute the different leverages.

GROUP-B

5. Answer any ***four*** questions: 6×4 = 24

(a) Enumerate briefly the major steps involved in Capital Budgeting Process. 6

(b) Write a short note on the following: 3+3

(i) Cash Management

(ii) Inventory Management.

(c) State the assumptions of 'M-M Hypothesis' in relation to Capital Structure theories. 6

(d) A company has 1,00,000 equity shares of ₹10 each. The company expects its earnings at ₹7,50,000 and Cost of Capital at 10% for the next financial year. 4+2

You are required:

(i) Using Walter's model, what dividend policy would you recommend when the rate of return on investment of company is estimated at 8% and 12% respectively?

(ii) What will be the price of equity share if your recommendations are accepted?

(e) X Ltd. wants to issue 10,000 new equity shares of ₹100 each at par. The floatation costs are 5% of the price of share. X Ltd. pays dividend initially @ ₹10 per share. Dividends are expected to grow at 6%. 3+3

Compute:

(i) The cost of new issue of equity shares.

(ii) What will be the cost of existing equity share if the current market price of an equity share is ₹200?

(f) A firm is considering two mutually exclusive projects A and B, the details of which are as follows: 4+2

		Project A (₹)	Project B (₹)
Investment		70,000	70,000
Cash Flow:			
Year	(i)	10,000	50,000
	(ii)	20,000	40,000
	(iii)	30,000	20,000
	(iv)	45,000	10,000
	(v)	60,000	10,000
		1,65,000	**1,30,000**

You are required to compute the Profitability Index and Net Present value of the above projects assuming cost of capital to be 10%.

GROUP-C

6. Answer any ***four*** questions: 3×4 = 12

(a) Explain the concept of 'CAPM'. 3

(b) Write a short note on 'ARR'. 3

(c) Briefly explain the factors affecting dividend decisions. 3

(d) Distinguish between 'Average Cost of Capital' and 'Marginal Cost of Capital'. 3

(e) From the following particulars, ascertain the value of the bond: 3

- Face value of Bond- ₹1,000
- Coupon rate 16% p.a. (payable half-yearly)
- Required rate of return @ 18%
- Bond is redeemable at par after 6 years

(f) Briefly explain the importance of working capital. 3

——×——