'समानो मन्त्रः समितिः समानी'

UNIVERSITY OF NORTH BENGAL

B.Com. Honours 5th Semester Examination, 2021

CC12-COMMERCE

FUNDAMENTALS OF FINANCIAL MANAGEMENT

Time Allotted: 2 Hours | Full Marks: 60

The figures in the margin indicate full marks.
All symbols are of usual significance.

GROUP-A

Answer any *two* questions from the following 12×2 = 24

1. (a) Critically compare between "Wealth Maximisation" and "Profit Maximisation" objectives of a business. 9

   (b) According to you, which one is better? 3

2. (a) X Ltd. has ₹18,00,000 of equity shares (₹100 each). General Reserve of ₹3,60,000 and Debts of ₹10,40,000. For the year ended 31.03.2021 the company's EBIT were ₹6,23,000. X Ltd. pays 8% interest on borrowed capital as is in a 30% tax bracket. The market value of equity as on 31.03.2021 was ₹150 per share. What was the weighted average cost of capital on 31.03.2021 if market value is used as weight? 6

   (b) Critically evaluate the NI and NOI approach to capital structure. 6

3. An enterprise is considering two mutually exclusive investment proposals at the beginning of 2021. Assuming the required rate of return is 10%, evaluate which investment proposal is better under: 3+2+5+2

   (i) Discounted Payback Period
   (ii) Net Present Value
   (iii) Internal Rate of Return
   (iv) Profitability Index.

	Proposal-1	**Proposal-2**
Cost of Investment	₹20,000	₹28,000
Life of Projects	4 years	5 years
Scrap Value	Nil	₹500
Estimated Net Income after depreciation and tax :	₹	₹
End of 2021	600	NIL
End of 2022	2,000	3,000
End of 2023	3,000	3,400
End of 2024	3,500	3,500
End of 2025	-	3,400

Depreciation is provided under straight line method. The P.V. of Re. 1 to be received at the end of each year at 10% p.a. is given below:

Year	1	2	3	4	5
P.V.	0.91	0.83	0.75	0.68	0.62

4. Your company is operating on 60% capacity. Producing 24,000 units per annum at the following cost-price structure: 12

	Particulars	₹
	Raw Materials	5 per unit
	Wages	3 per unit
	Overhead (variable)	2 per unit
	Overheads (fixed)	1 per unit
	Profit	2 per unit
∴	Selling Price	13 per unit

On 31st December, 2020 the current assets and current liabilities were as follows:

	₹
Raw Materials 4,000 units, at cost	20,000
Work-in-progress 1,000 units, at cost	8,000
Finished goods 3,000 units, at cost	33,000
Sundry Debtors	78,000
Creditors for goods	30,000
Liabilities for wages	3,000
Liabilities for expenses	6,000

In view of increased demand for the product, it has been decided that, from 1st January, 2021, the unit should operate at 90% capacity. Determine the working capital required at 90% capacity.

GROUP-B

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

(a) X Co. Ltd. has the following information: 6

Installed Capacity	1,000 units
Operating Capacity	900 units
Selling price per unit	₹10
Variable cost-per unit	₹7

Calculate the leverages under the following situation:

	Fixed Cost (₹)	Interest (₹)
Situation A	800	600
Situation B	1,200	500
Situation C	1,400	400

(b) A company currently has 1,00,000 shares. The company needs ₹10,00,000 to finance its new investments. The total earnings of the firm during the current year would be ₹10,00,000 and ₹5,00,000 would be paid by way of dividends. The market price per share at the end of the current year is expected to be ₹110. If the cost of capital is 15%, ascertain the present value of share under the Modigliani-Miller Model. 6

(c) Compare and contrast between NPV and IRR. 6

(d) Discuss the financial decisions taken by a finance manager in an organisation. 6

(e) In considering the most desirable capital structure of a company, the following estimates of the cost of debt and equity capital (after tax) have been made at various levels of debt-equity mix: 6

Debt as percentage of total capital employed	Cost of debt %	Cost of equity %
0	5.0	12.0
10	5.0	12.0
20	5.0	12.5
30	5.5	13.0
40	6.0	14.0
50	6.5	16.0
60	7.0	20.0

You are required to determine the optimal debt-equity mix for the company by calculating Composite Cost of Capital.

(f) What is Trading on Equity? Explain with the help of a practical example taking imaginary figure. 3+3

GROUP-C

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

(a) Explain stable dividend policy.

(b) What is dividend payout ratio?

(c) If debt is cheaper source of finance, then why every firm is not a 99% debt firm?

(d) Discuss the factors affecting the dividend policy of a company.

(e) State the operating cycle concept of working capital.

(f) How cost of retained earnings is measured?

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