[This question paper contains 6 printed pages.]

Sr. No. of Question Paper : 166 **Roll No............**

Unique Paper Code : 101434

Name of the Course : **BBS**

Name of the Paper : Financial Management (Paper No. 404)

Semester : IV (2014)

Duration : 3 Hours

Maximum Marks : 75

Instructions for Candidates

1. Write your Roll No. on the top immediately on receipt of this question paper.
2. Answer any **five** questions.
3. Attempt **all** parts of a question together.
4. Show your workings clearly on the answer sheet itself.
5. Use of Simple Calculator is allowed.

1. A company is thinking to install machine Y costing Rs. 2,50,000 with no salvage value and additional working capital of Rs. 70,000. The machine is expected to generate sales of Rs. 2,00,000 and will require cash expenses aggregating Rs. 50,000 in each of the 5 years of its life.

   The machine is subject to written down value method of depreciation at the rate of 25%. Assuming the company does not have any other asset in the block of 25%; 12% cost of capital and is subject to 35% tax. Should company install the machine ?

Year	1	2	3	4	5
PV factor at 12%	0.893	0.797	0.712	0.636	0.567

(15)

P.T.O.

2. (a) Silver Ltd. has the following capital structure :

Equity capital 5,000 share at Rs. 100 each	Rs. 5,00,000
9% preference shares	Rs. 1,50,000
12% debentures	Rs. 3,50,000
10% Term Loan	Rs. 5,00,000

The equity share of the company has current market price of Rs. 105 and the company declared a dividend of Rs. 9 per share for the next year. The dividend growth rate is 5%. Tax rate is 50%. Calculate weighted average cost of capital. (6)

(b) Prepare cash budget for January-June from the following information :

(i) The estimated sales and expenses are as follows :

Particulars	*Nov.*	*Dec.*	*Jan.*	*Feb.*	*March*	*April*	*May*	*June*
Sales (Rs)	2,00,000	2,20,000	1,20,000	1,00,000	1,50,000	2,40,000	2,00,000	2,00,000
Wages and salaries (Rs)	30,000	30,000	24,000	24,000	24,000	30,000	27,000	27,000
Miscellaneous expenses (Rs)	27,000	27,000	21,000	30,000	24,000	27,000	27,000	27,000

(ii) 20 percent of the sales are on cash and balance on credit.

(iii) The firm has a gross margin of 25 percent on sales.

(iv) 50 percent of the credit sales are collected in the month following the sales, 30 percent in the second month and 20 percent in the third month.

(v) Material for the sale of each month is purchased one month in advance on a credit for two months.

(vi) The time-lag in the payment of wages and salaries is one-third of a month and of miscellaneous expenses, one month.

(vii) Debentures worth Rs. 40,000 were sold in January.

(viii) The firm maintains a minimum cash balance of Rs. 40,000. Funds can be borrowed @ 12 percent per annum in the multiples of Rs. 1,000, the interest being payable on monthly basis.

(ix) Cash balance at the end of December is Rs. 60,000. (9)

3. (a) Explain the concept of permanent and temporary working capital. (3)

(b) You are supplied with the following information in respect of XYZ Ltd for the ensuing year :

Production of the year	69,000 units
Finished goods in store	3 months
Raw material in store	2 months' consumption
Production process	1 month
Credit allowed by creditors	2 months
Credit given to debtors	3 months
Selling price per unit	Rs. 50
Raw material	50 percent of selling price
Direct wages	10 percent of selling price
Manufacturing and administrative overheads	16 percent of selling price
Selling overheads	4 percent of selling price

P.T.O.

There is a regular production and sales cycle and wages and overheads accrue evenly. Wages are paid in the next month of accrual. Material is introduced in the beginning of the production cycle. You are required to ascertain its working capital requirement. (12)

4. (a) In order to increase sales from the normal level of Rs. 2.4 lakh per annum, the marketing manager submits a proposal for liberalising credit policy (Normal sales, Rs. 2.4 lakh; Normal credit period, 30 days) as under :

Proposed increase in credit period (beyond normal 30 days)	**Increase in normal sales (Rs.)**
15	12,000
30	18,000
45	21,000
60	24,000

The contribution to volume/profit-volume ratio is 33.33 percent. The company expects a pre-tax return of 20 percent on investment. Evaluate the above 4 alternatives and advice the management. (Assume 360 days a year). (8)

(b) The purchase manager of an organization has collected the following data for one of the inventory items as follows :

Interest on locked up capital	20%
Order processing cost for each order	Rs. 100
Inspection cost per lot	Rs. 50
Follow up cost of each order	Rs. 80

Pilferage while holding inventory	5%
Other holding costs	15%
Other procurement cost for each order	Rs. 170
Annual demand	1,000 units
Cost per item	Rs. 10

Suggest an optimum ordering policy to the purchase manager. (7)

5. (a) Explain the traditional theory of capital structure. (5)

(b) Skyline Software Ltd. has appointed you as its finance manager. The company wants to implement a project for which Rs. 30 lakh is required to be raised from the market as a means of financing the project. The following financing plans and options are at hand: (Number in thousands)

Particulars	**Plan A**	**Plan B**	**Plan C**
Option 1 :			
Equity shares	30	30	30
Option 2 :			
Equity shares	15	20	10
12% Preference shares	Nil	10	10
10% Non-convertible debentures	15	Nil	10

Assuming corporate tax to be 35 percent and the face value of all the shares and debentures to be Rs. 100 each, calculate the indifference points and earnings per share (EPS) for each of the financing plans. Which plan should be accepted by the company ? (10)

6. Attempt **any three** of the following :

(a) Explain implicit and explicit cost. Do you consider cost of retained earnings as implicit or explicit cost ? Give reason in support of your answer.

(b) What are the mutually exclusive projects ? Under what conditions lies a possibility of conflicting ranking given by the internal rate of return and net present value methods to such projects.

(c) Differentiate between systematic and unsystematic risk.

(d) Describe briefly the domestic and international financial instruments.

(3×5)