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Your Roll No. ....

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**B.Sc. (H) Computer Sc. / II Sem.**

Paper—205 (ii) : FINANCIAL MANAGEMENT

(Admissions of 2001 and onwards)

Time : 3 Hours

Maximum Marks : 75

(Write your Roll No. on the top immediately on receipt of this question paper.)

Attempt All questions.

1. (a) What is the goal of financial management ? Describe the major financial decisions that a financial manager has to take. 7
- (b) SBI offers a fixed deposit scheme with the following features :

Maturity	Interest Rate Compounded Annually
1 year	6.25%
2 years	6.75%
3 years	7.00%
5 years	7.50%

[P. T. O.]

Mr. Ramesh wants to invest ₹ 25,000 for three years. What amount he would get back after three years from the bank ? 3

- (c) Mr. Rajesh has retired recently. He received ₹ 28 lakh as retirement benefits which he has invested in a bank deposit paying 11% rate of interest per annum. If he expects to live independently for another 15 years, how much money can he withdraw at the end of every year so as to leave a nil balance in his account at the end? 5

**The Present Value of an Annuity of One Rupee**

Year	10%	11%	12%
13	7.103	6.750	6.424
14	7.367	6.982	6.628
15	7.606	7.191	6.811

2. (a) Explain briefly the investment criteria that have been suggested to judge the worthwhileness of investment projects. What are the properties which make NPV a very attractive decision criterion? 7

- (b) ABC Ltd. is considering purchase of one of the following machines whose relevant data are given below : 8

	Machine X	Machine Y
Estimated Life	3 years	3 years
Capital Cost	₹ 90,000	₹ 90,000
Earnings after Tax :		
Year 1	₹ 40,000	₹ 20,000
Year 2	₹ 50,000	₹ 70,000
Year 3	₹ 40,000	₹ 50,000

The company follows straight line method of charging depreciation. The estimated salvage value of both the machines is zero. Which shall be the more profitable investment based on (i) pay back period, (ii) net present value assuming 10% cost of capital.

**The Present Value of One Rupee**

Year	8%	9%	10%
1	0.926	0.917	0.909
2	0.857	0.842	0.826
3	0.794	0.772	0.751
4	0.735	0.708	0.683
5	0.681	0.650	0.621

3. (a) ABC Ltd. issued 50,000, 10% Preference Shares of ₹ 100 each redeemable after 10 years at a premium of 5%. The cost of issue is ₹ 2 per share. Calculate the cost of Preference capital. 5
- (b) ABC Ltd.'s after tax cost of different sources of finance is as follows :

Equity Shares	14%
Retained Earnings	13%
Preference Shares	10%
Debt	5%

The Capital Structure of the company is as under :

Source	Book Value (₹)	Market Value (₹)
Equity Share Capital (₹ 10 per share)	4,00,000	10,00,000
Retained Earnings	1,00,000	—
Preference Share Capital	2,00,000	2,00,000
Debt	3,00,000	3,00,000

Calculate the Weighted Average Cost of Capital using (a) book value weights, and (b) market value weights. 10

4. (a) Compare and contrast the Net Income approach and the Net Operating Income approach with respect to designing capital structure of a firm. 6
- (b) The capital structure of ABC Ltd. is as follows :

	₹
8,000, 5% Debentures of ₹ 100 each	8,00,000
4,000, 8% Redeemable Preference Shares of ₹ 100 each	4,00,000
80,000 Equity Shares of ₹ 10 each	8,00,000
<b>Total</b>	<b>20,00,000</b>

The present earnings before interest and taxes are 10% on invested capital. The company proposes to purchase some plant of ₹ 4,00,000 and the additional investment for it will produce 10% earnings every year.

The tax rate is 50%. Advise whether the company should obtain ₹ 4,00,000, 5% Debentures of ₹ 100 each *Or* ₹ 4,00,000, 8% Redeemable Preference Shares of ₹ 100 each *Or* ₹ 4,00,000 Equity Shares of ₹ 10 each to finance the plan. 9

5. (a) What are current assets and current liabilities? What factors influence the working capital requirements of a firm? 7

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(b) ABC Ltd. provides the following information : 8

Rate of Return on Investment                      15%

Earnings per share                                      ₹ 20

Cost of capital / Capitalization rate              12%

Calculate value of shares using the Gordon's model  
on the following assumptions :

	<b>Dividend Payout Ratio</b>	<b>Retention Ratio</b>
(i)	40	60
(ii)	80	20
(iii)	100	0