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1786

Your Roll No.

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

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.

All questions carry equal marks.

1. (a) Discuss briefly the major financial decisions made by a firm and point out their inter-relationships. 8
- (b) Mr. Khan has borrowed Rs. 40,00,000 at the rate of 12% p.a. Repayment of loan will start at the end of third year from now and the amount of loan and interest is to be repaid in six equal annual instalments. What would be the amount of annual instalments ? 7

$$\left[\begin{array}{l} \text{PVAF 6 years} = 4.111 ; \text{FVIF} = 1.254 \\ 12\%, \qquad \qquad \qquad 12\%, 2 \text{ yrs} \end{array} \right]$$

[P.T.O.]

2. (a) Sigma Ltd.'s equity share has a current market price of Rs. 90. The company paid a dividend of Rs. 6 per share last year and the investors expect it to grow at a rate of 10% p.a. What is the company's cost of equity ? 5

(b) Oxberg Ltd. intends to purchase a new machine at a cost of Rs. 80,00,000. The machine is expected to have a life of 5 years and the annual depreciation will be Rs. 15,00,000. At the end of 5 years the old machine is expected to be sold for Rs. 5,00,000. It is estimated that by using the machine, the company will earn the following profits before depreciation and taxes (PBDT) :

Years	Profit before depreciation and taxes (Rs.)	PVIF @ 15%
1.	30,00,000	0.870
2.	40,00,000	0.756
3.	50,00,000	0.658
4.	40,00,000	0.572
5.	30,00,000	0.497

Company's cost of capital is 15% and the tax rate applicable to the company is 30%. Calculate NPV and suggest if the machine should be purchased. 10

3. (a) Explain the concept of weighted average cost of capital and discuss its significance for a firm. 6
- (b) Following information is available in respect of Surya Ltd.

EPS = Rs. 20

Cost of capital = 15%

Return on Investment = 20%

Assuming Walter's model applies;

(1) What is the optimum dividend payout ratio for the firm ? What will be the price of the share at this dividend payout ?

(2) What will be the price of share if company decides a dividend payout ratio of 60%. 9

4. (a) Explain the Profitability Index method of capital budgeting. How is it different from Net Present Value (NPV) method ? 5
- (b) The following information is available for two firms, Alpha Ltd. and Beta Ltd. :

	Alpha Ltd.	Beta Ltd.
Net Operating Income	Rs. 20,00,000	Rs. 20,00,000
Cost of Equity	15%	15%
Debt	Nil	Rs. 1,00,00,000
Cost of Debt	10%	10%

Assuming 'Net Income' approach applies and there are no taxes, calculate :

- (1) The market values of Alpha Ltd. and Beta Ltd.
 - (2) The average cost of capital for both the firms. 10
5. (a) What are the elements of Credit Policy ? Explain the consequences of lengthening the credit period for a firm. 5
- (b) A firm requires 50,000 units of a component per year at a unit cost of Rs. 125. The ordering cost is Rs. 500 per order and the inventory carrying cost is 10% of the unit cost. At present the firm buys in lots of 10000 units.
- (1) What is the total annual cost of existing inventory policy ?
 - (2) Determine the economic order quantity. How much money could be saved by the firm if order size is equal to economic order quantity ? 10