[This question paper contains 4 printed pages.]

4663 *Your Roll No.* ....

B.Sc. Prog./II **AS**

EL 210 (vi) – Financial Management

(Admissions of 2005 and onwards)

Time : 2 Hours *Maximum Marks : 38*

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

Question No. **1** *is compulsory.*
Attempt any **THREE** *from the rest.*
Use of Non-Scientific Calculator is permitted.
Financial Tables are to be provided.

1. State whether the following statements are TRUE or FALSE :

(a) Financial management refers to financial decision making.

(b) Cash flows are same as profit before tax.

(c) "A bird in hand is worth two in the bush" correctly presents the concept of time value of money.

(d) Debt repayment capacity is an important consideration for designing a capital structure.

(e) EBIT-EPS analysis is an extension of financial leverage analysis. (1×5=5)

P.T.O.

2. (a) Explain briefly the factors which have a bearing on the dividend policy of a company. (3)

(b) SV limited wants to buy a machine so that it can produce 1,00,000 units of output. Advise whether Machine M-I or M-II should be selected.

Details	Machine M-I	Machine M-II
Cost of the Machine	16,00,000	24,00,000
Life of the Machine	5 Years	5 Years
Salvage Value	32,000	64,000

Depreciation is by Straight Line method. These are mutually exclusive machines. The output can be sold @ Rs. 75 each but the cost of production is Rs. 20 in Machine M-I and Rs. 16 in Machine M-II. The company is in tax bracket of 40% and cost of capital is 12%. NPV technique of evaluation may be adopted. (8)

3. (a) Explain the operating Leverage and Financial Leverage. How these are measured ? (3)

(b) Beta Limited has a requirement of raising Rs. 25,00,000 for meeting its investment plans. It has Rs. 5,25,000 in the form of retained earnings available for investment purposes. The relevant details are as under :

1. Debt-Equity Mix	30% and 70%
2. (a) Cost of debt up to Rs. 4,00,000	10% (Pre-tax)
(b) Beyond Rs. 4,00,000	14% (Pre-tax)
3. Earnings per share	Rs. 10
4. Dividend Pay out	50% of earnings
5. Expected growth rate in dividend	10%
6. Current market price per share	Rs. 110
7. Tax Rate	50%

Your are required to :

(i) Determine the pattern for raising the additional finance.

(ii) Determine the post tax average cost of additional debt.

(iii) Determine the cost of retained earnings and cost of equity; and

(iv) Compute the overall weighted average post-tax cost of additional finance. (8)

4. (a) Contrast the salient features of the traditional and modern approaches to financial management. (8)

(b) An investor deposits a sum of Rs. 5,00,000 in a bank account on which interest is credited @ 10% p.a. How much amount can be withdrawn annually for a period of twenty years ? (3)

5. A company is considering the purchase of a machine. Two machines M-I and M-II are available, each costing Rs. 20,00,000. In comparing the profitability of machine, a discount rate of 10% is to be used. Earnings after tax are expected to be as under :

Year	Machine M-I (Rs.)	Machine M-II (Rs.)
1	6,00,000	2,00,000
2	8,00,000	6,00,000
3	10,00,000	8,00,000
4	6,00,000	12,00,000
5	4,00,000	8,00,000

You are required to indicate which of the machines would be profitable using the following methods of ranking investment proposals :

(i) Net Present Value Method

(ii) Pay-Back Method and

(iii) ARR Method (11)