[This question paper contains 6 printed pages.]

**3882** *Your Roll No.* .............

**B.Sc. Prog./II** **IS**

EL 210 (VI) – FINANCIAL MANAGEMENT

(NC – Admissions of 2005 & 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 be provided.*

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

   (i) In financial management, the objective of financial manager is profit maximization.

   (ii) There is a time element involved in capital budgeting.

   (iii) Payback technique is more an indication of liquidity than of profitability.

P.T.O.

(iv) Retained earnings have implicit cost only.

(v) Favorable financial leverage and trading on equity are same. (5)

2. (a) "Financial management is more than procurement of funds". Explain the statement. What are the responsibilities of a finance manager? (6)

(b) What is capital budgeting? Why is it significant for a firm? (5)

3. Puma Ltd. is considering a proposal of computerization of the various procedures in the organization. It has come to know that this project will lead to annual saving due to reduction of 10 clerks with annual salaries of Rs. 20,000 each. Rs. 10,000 will be saved from reduced production delays, Rs. 15,000 will be saved by timely billing procedures. The hardware will cost Rs. 4,00,000 and installation charges will be Rs. 1,00,000. Depreciation will be charged on straight line basis over its life of 5 years with zero salvage value. Two specialists will be required to operate the system with annual salaries of Rs. 40,000 each. The annual maintenance charges are estimated at Rs. 25,000. 40% tax rate is applicable on the company and required rate of return of the company is 15% You are required to:

(i) Find the projects initial cash outlay.

(ii) Find the projects operating and terminal value cash flows over its life.

(iii) Evaluate the project using NPV method.

(iv) Evaluate the project using Pay Back Period method.

(v) What will be the NPV of the project if the project can be sold for Rs. 50,000 at the end of 5th year even though the salvage value is zero and the capital gain is subject to tax ? (11)

4. (a) The following information's are available for firms P and Q according to traditional approach :

| | P (Rs.) | Q (Rs.) |
|---|---|---|
| Expected operating income | 1,00,000 | 1,00,000 |
| Total debt cost | --------- | 20,000 |
| Net income | 1,00,000 | 80,000 |
| Cost of equity | 10% | 11% |
| Market value of shares | 10, 00,000 | 7, 20,000 |
| Market value of debt | --------- | 4, 00,000 |
| Total value of the firm | 10,00,000 | 11,20,000 |

Compute the values for both the firms as per MM approach. Assume that there is no corporate income tax and equilibrium value of $K_0$ is 20%. (8)

(b) Explain Net Income approach to capital structure. (3)

5. (a) A company belongs to a risk class for which the approximate capitalization rate is 20%. It currently has outstanding 50,000 shares selling at Rs. 100 each. The firm is considering the declaration of dividend of Rs. 10 per share at the end of the current financial year. It expects to have a Net income of Rs. 5,00,000 and has a proposal of making investment of Rs. 10,00,000. Show that under the MM approach, the payment of dividend doesn't affect the value of the firm. (7)

(b) Why is the consideration of time important in financial decision making? How can time be adjusted? (4)

6. Determine the working capital requirement of a newly formed firm. The information about the projected profit and loss account of the company is as under :

| | | Rs. |
|---|---|---|
| Sales | | 25,00,000 |
| Cost of goods sold | | 18,30,000 |
| Gross Profit | | 6,70,000 |
| Administrative expenses | Rs. 1,40,000 | |
| Selling expenses | Rs. 2,30,000 | 3,70,000 |
| Net Profit | | 3,00,000 |

Cost of goods sold has been calculated as under :

| | |
|---|---|
| Material used | Rs. 10,40,000 |
| Labour | Rs. 7,25,000 |
| Depreciation | Rs. 2,35,000 |
| | Rs. 20,00,000 |
| Less: Stock of finished goods | (Rs. 1,70,000) |
| (8.5% not yet sold) | Rs. 18,30,000 |

The figures given above relate only to the goods that have been finished and not to work in progress. The work in progress is equal to 10% of year's production (in terms of physical units) on an average. The company believes in keeping two months consumption of material in stock; desired minimum cash balance is

Rs. 46,000. Average time lag in payment of lobour expenses is one month; suppliers of materials extend 1.5 months credit; sales are 205% cash; rest is at two month's credit. Give your assumptions clearly (if any). (11)