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B.Sc. (Prog) /II

EL-210(VI)- Financial Management

(Admissions of 2005 onwards)

Duration : 2 Hours Max.Marks : 38

Instructions for the candidate:

Question No. 1 is compulsory.

Attempt any **THREE** from the rest.

Use of non-scientific calculator is permitted.

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

(a) Profit maximisation and wealth maximisation are essentially the same thing.
(b) The discounting technique helps in finding out the future value of a present amount.
(c) Financial leverage is always beneficial to the firm.
(d) The cost of capital is the required rate of return to maintain the value of the firm.
(e) Dividend is compulsorily payable to preference shareholders. (1×5=5)

2. A company is considering to purchase a machine. Two machines A and B are available each costing Rs.5,00,000. In comparing the profitability of machines, a discount rate of 10% is to be used. Earnings after taxation are expected to be as follows:

Year	Machine A	Machine B
1	1,50,000	50,000
2	2,00,000	1,50,000
3	2,50,000	2,00,000
4	1,50,000	3,00,000
5	1,00,000	2,00,000

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

(a) Payback method
(b) ARR method (11)

3. (a) What are the major financial decisions which are taken by financial management? Explain. (8)

(b) An investor deposits a sum of Rs.5,00,000 in a bank account on which interest is credited @9% p.a. How much amount can be withdrawn annually for a period of 12 years? (3)

4. (a) Mention the factors affecting working capital requirements of a business. (3)

(b) The following information is available from the balance sheet of a company:

	Rs.
Equity share capital	80,00,000
10% preference shares	20,00,000
14% debentures	60,00,000
	1,60,00,000

Determine the weighted average cost of capital on existing capital structure. It will pay a dividend at a rate of Rs.2 per share which will grow at 7% forever. Income tax rate is 50%. The current price of share of the company is Rs.25. (8)

5. (a) Explain stable dividend policy. (3)

(b) A ltd. is considering the possibility of manufacturing a particular component which at present is bought from outside. The manufacture of the component would require an investment of Rs. 7,50,000 in a new machine besides an additional investment of Rs.50,000 in working capital. The life of the machine would be 10 years with a salvage value of Rs.50,000. The estimated savings before tax would be Rs.1,80,000 p.a. Income tax rate is 50%. The company's required rate of return is 10%.Depreciation is provided on Straight line basis. Suggest, using NPV, whether this investment should be made or not. (8)