

## 4/COM-253 Syllabus-2023

2026

( May-June )

**FYUP : 4th Semester Examination**

**COMMERCE**

**( Financial Management )**

**( COM-253 )**

**Marks : 75**

**Time : 3 hours**

*The figures in the margin indicate full marks for the questions.*

1. (a) Discuss briefly the scope of financial management. 5

(b) The management of BR Ltd. has two alternative projects under consideration. Project A requires a capital outlay of ₹ 1,20,000 but Project B needs ₹ 1,80,000. Both are estimated to provide a cash flow for five years;

A—₹ 40,000 per year

B—₹ 58,000 per year

The cost of capital is 10%.

26D/1753 )

( Turn Over )

Show which project is preferable from the view of (i) NPV and (ii) IRR. 10

Or

- (a) Discuss the traditional techniques of capital budgeting. 7
- (b) Explain time value of money with an example. 5
- (c) How do you define risk in finance? 3
2. (a) What are the sources of short-term finance for working capital? 9
- (b) Prepare an estimate of Working Capital from the following information of BM Ltd. : 6

Projected annual sales—10000 units

Selling price—₹ 10 per unit

Percentage of net profit on sales—20%

Average credit period allowed to customers—8 weeks

Average credit period allowed by suppliers—4 weeks

Average stock holding in terms of sales requirements—12 weeks

Allow 10% for contingencies

Or

(a) Define the concept of operating cycle and explain its usefulness.

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(b) SB Ltd. has at present annual sales level of 10000 units at ₹ 400 per unit. The variable cost is ₹ 250 per unit and fixed cost amount to ₹ 3,50,000 per annum. The present credit period allowed by the company is one month. The company is considering a proposal to increase the credit period to two months and three months and have made the following estimates :

|                       | <u>Existing</u> | <u>Proposed</u> |
|-----------------------|-----------------|-----------------|
| Credit period (month) | 1               | 2 3             |
| Increased in sales    | —               | 15% 30%         |
| Bad debts             | 1%              | 3% 5%           |

There will be increase in fixed cost by ₹ 50,000 on account of increase in sales beyond 25% of present level. The company plans a pre-tax return of 20% on investment in receivables.

You are required to calculate the most paying credit policy for the company.

10

3. (a) A company has 12% irredeemable preference shares of the face value of ₹ 100 each. Flotation costs are estimated at 5% of the expected sale price.

What is the cost of preference shares if it is issued (i) at par and (ii) at 10% premium?

5

- (b) A Ltd. and B Ltd. are in the same risk class and are identical at every respect, except that A Ltd. uses debt while B Ltd. does not. A Ltd. has ₹ 36,00,000 debentures carrying a 12% interest rate. Both the firms earn a 25% operating profit on their total assets of ₹ 70,00,000.

Assuming a corporate tax rate of 35% and an equity capitalization rate of 15% for an all equity companies.

Calculate the value of both firms using

- (i) net income approach;  
(ii) net operating income approach.

10

Or

(a) Sun Ltd. has the following capital structure :

| Particulars              | Market Values<br>(₹) | Book Values<br>(₹) | Cost (%) |
|--------------------------|----------------------|--------------------|----------|
| Equity Share Capital     | 80,00,000            | 1,20,00,000        | 18       |
| Preference Share Capital | 30,00,000            | 20,00,000          | 15       |
| Fully Secured Debentures | 40,00,000            | 40,00,000          | 10       |

Calculate the company's Weighted Average Cost of Capital on both market values and book values. Assume rate of tax at 30%. 9

(b) What are the important factors to be considered in planning the capital structure of a company? 6

4. (a) What is a stable dividend policy? Why should it be followed? 5

(b) Following are the information regarding companies A Ltd., B Ltd. and C Ltd. :

| Particulars            | A Ltd. | B Ltd. | C Ltd. |
|------------------------|--------|--------|--------|
| Earning per share (₹)  | 16     | 16     | 16     |
| Rate of return         | 15%    | 5%     | 10%    |
| Cost of equity capital | 12%    | 12%    | 12%    |

Calculate the value of an equity share of these companies using Walter's model—(i) 100% retention, (ii) 50% retention and (iii) no retention. 10

Or

(a) Briefly explain Gordon model of share valuation vis-a-vis dividend policy. 5

(b) M Ltd. belongs to a risk class for which the capitalization rate is 10%. It has currently outstanding 25000 shares selling at ₹ 100 each. The firm is contemplating the declaration of a dividend of ₹ 5 per share at the end of the current financial year. It expects to have a net income of ₹ 2,50,000 and has a proposal for making new investment of ₹ 9,00,000.

Show that under the MM assumptions, the payment of dividend does not affect the value of the firm. 10

( 7 )

5. Write short notes on any *three* of the following : 5×3=15

- (a) Objectives of financial management.
- (b) Credit standards and credit terms
- (c) Components of cost of capital
- (d) Factors affecting dividend decisions

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