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(1st Semester)

COMMERCE

(Honours)

Paper No. : BCAF-01/BCM-01

(Financial Management)

Full Marks : 70

Pass Marks : 45%

Time : 3 hours

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

1. (a) Discuss in brief the scope of financial management. 14

Or

- (b) What is capital budgeting? Examine its need and importance. Write about payback period method with a suitable example. 2+6+6=14

2. (a) What is meant by cost of capital? What are the components of cost of capital? Explain about the cost of retained earnings. 2+6+6=14

Or

- (b) Explain about cost of preference capital. Calculate cost of preference capital—
(i) at par, (ii) at a premium of 10% and
(iii) at a discount of 5% from the following information : 5+3+3+3=14
A company issues 10000, 10% preference shares of ₹ 100 each. Cost of issue is ₹ 2 per share.

3. (a) Define leverage. What do you mean by operating leverage and financial leverage? Explain the limitation of financial leverage. 2+4+4+4=14

Or

- (b) Calculate financial leverage and operating leverage under Situations A and B, and Financial Plans I and II respectively from the following information relating to the operation and capital structure of ABC Ltd. : 7+7=14

Installed capacity	1000 units
Actual production and sales	800 units

(3)

Selling price per unit	₹ 20
Variable cost per unit	₹ 15
Fixed cost : Situation A	₹ 800
Situation B	₹ 1,500

Capital structure :

	Financial Plan	
	I	II
Equity	₹ 5,000	₹ 7,000
Debt	₹ 5,000	₹ 2,000

4. (a) ABC company has currently all equity capital structures consisting of 15000 equity shares of ₹ 100 each. The management is planning to raise another ₹ 25 lakhs to finance a major programme of expansion and is considering three alternative methods of financing :

- (i) To issue 25000 equity share of ₹ 100 each
- (ii) To issue 25000, 8% debenture of ₹ 100 each
- (iii) To issue 25000, 8% preference shares of ₹ 100 each

The company's expected earnings before interest and taxes is ₹ 8,00,000. Assuming a corporate tax rate 50%,

(4)

calculate earning per share in each alternative and comment which alternative is best and why. $4+4+4+2=14$

Or

- (b) Explain the various factors which influence the dividend decision of a firm. 14

5. (a) Explain the concept of receivables and inventories. Explain in brief operating cycle or circular flow concept. $5+9=14$

Or

- (b) Prepare an estimate of working capital requirements from the following information of a trading concern : 14

- (i) Projected annual sales—100000 units
- (ii) Selling price ₹ 8 p.u.
- (iii) % of net profit on sales—25%
- (iv) Average credit period allowed to customers—8 weeks
- (v) Average credit allowed to suppliers—4 weeks
- (vi) Average stock holding in terms of sales required—12 weeks
- (vii) Allow 10% for contingencies

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