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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) What is financial management? Explain in detail the functions of financial management. 4+10=14

Or

- (b) Calculate the NPV (Net Present Value) and PI (Profitability Index) of the two projects and suggest which of the two

projects should be accepted assuming a discount rate of 10% from the following information :

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	<i>Project—X</i>	<i>Project—Y</i>
Initial investment (in ₹)	80,000	1,20,000
Estimated life (in years)	5	5
Scrap value (in ₹)	4,000	8,000

The profits before depreciation and after taxes (cash flows) are as follows :

<i>Year</i>	<i>Project—X</i> ₹	<i>Project—Y</i> ₹
1	20,000	80,000
2	40,000	40,000
3	40,000	20,000
4	12,000	12,000
5	8,000	8,000

2. (a) What do you mean by cost of capital? What is the significance of cost of capital? Also discuss the major problems in determination of cost of capital.

2+6+6=14

Or

- (b) What is weighted average cost of capital? Calculate the weighted average cost of capital for a firm which has the

following capital structure and after-tax costs for the different sources of funds used :

$$4+10=14$$

Sources of funds	Amount (₹)	Proportion	After-tax cost (%)
Debt	30,00,000	25	5
Preference Shares	24,00,000	20	10
Equity Shares	36,00,000	30	12
Retained Earnings	30,00,000	25	11
Total	<u>1,20,00,000</u>	<u>100</u>	

3. (a) What is operating leverage? Explain its merits and demerits. Also briefly explain how operating leverage helps in magnifying the revenues of a concern.

$$2+6+6=14$$

Or

- (b) From the following figures related to two companies, you are required to calculate operating, financial and combined leverages :

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	(₹ in lakhs)	
	X Ltd.	Y Ltd.
Sales	1000	2000
Variable Cost	400	500
Contribution	<u>600</u>	<u>1500</u>
Fixed Cost	300	500
	<u>300</u>	<u>1000</u>
Interest	100	200
Profit Before Tax	<u>200</u>	<u>800</u>

(Turn Over)

4. (a) What is capital structure? Explain the Net Income (NI) Approach on how capital structure of a firm affects the value of a firm. 4+10=14

Or

- (b) Explain dividend policy. Discuss the various forms of dividends. Also explain stability of dividends. 2+6+6=14

5. (a) What is working capital management? Explain the factors determining the working capital of a concern. 2+12=14

Or

- (b) From the following data, compute the duration of operating cycle for each of the two companies : 14

<i>Particulars</i>	<i>X Ltd.</i>	<i>Y Ltd.</i>
	₹	₹
Stocks :		
Raw Materials	80,000	1,20,000
Work-in-Progress	60,000	90,000
Finished Goods	50,000	76,000
Purchase/Consumption of		
Raw Materials	3,20,000	5,40,000
Cost of Goods Produced/Sold	6,00,000	7,60,000
Debtors	1,44,000	2,16,000
Creditors	40,000	54,000

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