2020

(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

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%, 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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