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WEST BENGAL STATE UNIVERSITY

B.Com. Honours 6th Semester Examination, 2025

FACACOR13T-B.Com. (CC13)

Financial Management

Time Allotted: 2 Hours　　　　Full Marks: 50

The figures in the margin indicate full marks.
Candidates should answer in their own words and adhere to the word limit as practicable.
All symbols are of usual significance.

GROUP-A

Answer any *two* questions from the following　　$10\times2 = 20$

1. (a) Give an idea about the 'Wealth Maximisation' objective of financial management. 5+5

   (b) Calculate operating leverage and financial leverage from the following:

Sales (10,000 units)	₹ 10,00,000
Variable Cost per unit	₹ 60
Interest	₹ 1,00,000
EBT (Earning Before Tax)	₹ 2,00,000
DCL	2.5

2. (a) State the compounding and discounting techniques of time value of money. 4+6

   (b) Delta Tools Ltd. has the following capital structure

   Equity (Rs 10/share) → Rs. 10,00,000

   9% Preference Shares → Rs. 5,00,000

   10% Debentures → Rs. 3,00,000

   Market Price per Equity Share → Rs. 120, expected dividend Rs. 12, growth rate is 5%

   Tax Rate → 30%

   Calculate Weighted Average Cost of Capital (WACC) using market value weights.

3. (a) The management of X Ltd. subscribing to the Net Operating Income (NOI) approach believes that its cost of debt and overall cost of capital will remain at 8% and 12% respectively. If the debt-equity ratio is changed from 1:1 to 2:1, how will the cost of equity be changed? 5+5

   (b) Mention the factors that determine the capital structure of a firm.

GROUP-B

Answer any *two* questions from the following 15×2 = 30

4. The Board of Directors of P Ltd. requests you to prepare a statement showing the working capital requirements forecast for a level of activity of 1,56,000 units of production p.a. The following information is available: 15

	p.u. ₹
Raw Materials	18
Labour	8
Overheads	15
	41
Profit	12
Selling price p.u.	53

Additional information:

(i) Raw Materials are in stock, on an average, one month.

(ii) Materials are in process, on an average, 2 weeks;

(iii) Finished goods are in stock, on an average, one month;

(iv) Credit allowed by suppliers one month;

(v) Credit allowed to Debtors 2 months;

(vi) Lag in payment of wages $1\frac{1}{2}$ weeks;

(vii) Lag in payment of overheads one month;

One fifth of the output is sold against cash. Cash in hand and at bank is expected to be ₹15,000. It is to be assumed that production is carried on evenly throughout the year, wages and overheads accrue similarly and a time period of four weeks is equal to a month.

5. A company has 1,00,000 shares at present. The company requires ₹20,00,000 to finance its new investments. The company's total earnings during the current year would be ₹20,00,000. The company is thinking of two alternatives: 7+8

(i) Retain the entire amount of earnings to finance its investments, or

(ii) To pay ₹8,00,000 by way of dividends and retain ₹12,00,000 for reinvestment and the shortfall will be met by issue of shares.

The market price of the company's share is at present ₹100 each. The cost of Capital is 20%.

Determine the market price of the company's shares under each of the alternative situations using the Modigliani-Miller model. Also ascertain the value of the firm at the end of the year.

6. (a) Discuss the merits of Accounting Rate of Return. 5+10

(b) A Company is contemplating to purchase a machine. Two machines A and B are available, each costing ₹5 lakhs. In comparing the profitability of the machines, a discount rate of 10% is to be used and machine is to be written off in five years by straight line method of depreciation with nil residual value.

Cash inflows after tax are expected 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

Indicate which machine would be profitable using the Net present value method.
The discounting factors at 10% are:

Year	1	2	3	4	5
Discounting factor	0.909	0.826	0.751	0.683	0.621

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