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Sr. No. of Question Paper : 1316

Unique Paper Code : 2922062402

Name of the Paper : Financial Management

Name of the Course : **Bachelor of Management Studies (BMS) 2025 (NEP)**

Semester : IV

Duration : 3 Hours

Maximum Marks : 90

Instructions for Candidates

1. Write your Roll No. on the top immediately on receipt of this question paper.
2. Answer any **five** questions. **All** questions carry equal marks.
3. Attempt parts of a question together. Show your workings clearly as a part of the solution.
4. Use of Simple Calculator is allowed.
5. Reference to Present Value Tables may be allowed.
6. Rounding off of figures may be done as specified in the questions or up to nearest Rupee if not specified.

Q1.(I). Skyline Electronics is considering a proposal to replace one of its machines. In this connection, the following information is available. The existing machine was bought 3 years ago for Rs 10 lakh. It was depreciated at 25 per cent per annum on a reducing balance basis. It has a remaining useful life of 5 years, but its annual maintenance cost is expected to increase by Rs 50,000 from the sixth year of its installation. Its present realisable value is Rs 6 lakh. The company has several machines, having 20 per cent depreciation. The new machine costs Rs 15 lakh and is subject to the same rate of depreciation. On sale after 5 years, it is expected to net Rs 9 lakh. With the new machine, the annual operating costs (excluding depreciation) are expected to decrease by Rs 1 lakh. In addition, the new machine would increase productivity on account of which net revenues would increase by Rs 1.5 lakh annually. The tax rate applicable to the firm is 35 per cent and the cost of capital is 10 per cent. Is the proposal financially viable? Advise the firm on the basis of NPV of the proposal. (12 marks)

Year	1	2	3	4	5
PV factor@10%	0.909	0.826	0.751	0.683	0.620

(II). What are the primary decisions made by a finance manager? (6 marks)

Q2(I). ABC Ltd., has the following book value capital structure: (Rs crore)

Equity capital (in shares of Rs 10 each): Rs 15

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12% Preference capital (in shares of Rs 100 each):	Rs 1
Retained earnings:	Rs 20
11.5% Debentures (of Rs 100 each):	Rs10
11% Term loans:	Rs 12.5

The next expected dividend on equity shares per share is Rs 3.60; the dividend per share is expected to grow at the rate of 7 per cent. The market price per share is Rs 40. Preference stock, redeemable after ten years, is currently selling at Rs 75 per share. Debentures, redeemable after six years, are selling at Rs 80 per debenture. The Income- tax rate for the company is 40 per cent. (i) Required: Calculate the weighted average cost of capital using: (a) Book value proportions; and (b) Market value proportions. (12 marks)

(II). How is profit maximization different from wealth maximization as the objective of a firm? Being the equity investor in a large firm, what is important for you? (6 marks)

Q3.(I). In the light of the data given below for a firm with two capital structures A and B, find Value of the Firm, Value of Equity and Cost of Equity. Verify the propositions of NOI Approach with the help of the above. (12 marks)

Structure	10% Debt	Equity
A	₹0	₹10,00,000
B	₹4,00,000	₹6,00,000
Total	₹10,00,000	₹10,00,000

Assume EBIT to be ₹2,00,000 and Overall cost of capital to be 12.5%.

II). Explain the propositions under the Net Operating Income Approach to Capital Structure. (6 marks)

Q 4(I). A company is considering two financing options to raise ₹20,00,000. Assuming tax rate of 35%, find the EBIT level at which EPS is the same under both options. Comment on the capital structure mix that will be appropriate before and beyond the Indifference Point. (12 marks)

	Option A	Option B
Equity (of Rs. 10 each)	Rs. 20,00,000	Rs. 12,00,000
10% Debt	Nil	Rs. 8,00,000

(II). Explain briefly Gordon's Dividend Theory. With the information provided below, calculate the market price per share using Gordon's Model and recommend an appropriate dividend policy. (6 marks)

Earnings per share (E) = ₹12

Dividend payout ratio = 40%

Cost of equity (K_e) = 15%

Rate of return (r) = 18%

Q5.I. Gamma Industries Ltd. has an installed capacity of 60,000 units per annum. It is currently operating at 60% capacity. The company earns a profit of 20% on total cost. The cost sheet per unit is as follows: (12 marks)

Expenses	Per Unit
Raw material	80₹
Direct wages	40₹
Manufacturing overheads	60₹ (including depreciation 20₹)
Administrative overheads	20₹
Selling and distribution overheads	10₹ (all cash)

Working-capital policy (assume applies at all levels of activity):

- Raw materials in stock: 1 month.
- Production process: half a month. In work-in-progress, materials are 100% complete, and wages plus cash manufacturing overheads are 50% complete.
- Finished goods inventory: 1 month at production cost (excluding depreciation).
- Customers are allowed 1.5 months' credit (on sales value).
- Suppliers allow 1 month's credit for raw materials.
- Wages, cash manufacturing overheads, administrative and selling overheads are paid half a month in arrears.
- Desired cash balance: Rs 1,50,000 (same at both activity levels).
- Assume 12 months in a year and even flow of costs and sales.

The company proposes to increase its activity from 60% to 90% of capacity next year, without change in selling price, cost structure or working-capital policy.

You are required to:

- Estimate the net working capital requirement at 60% capacity.
- Estimate the net working capital requirement at 90% capacity.
- Compute the additional net working capital required to support the increase in activity.

- II. What is ABC analysis in inventory management? Explain the procedure of ABC analysis and show how it helps a firm in exercising selective control over materials. (6 marks)

Q6.I. Y Ltd. is considering three alternative credit policies: A, B and C. The relevant information is as follows: (12 marks)

- Present annual sales under existing policy: Rs 40,00,000
- Selling price per unit: Rs 100
- Variable cost: 70% of selling price
- Fixed costs (for the range of sales considered): Rs 5,00,000 per annum

Expected figures under different policies are:

Policy	Expected Annual Sales ₹	Average Collection Period (days)	Bad Debts (% of sales)
A	40,00,000	30	1.0
B	46,00,000	45	1.5
C	50,00,000	60	2.0

The company's before-tax required rate of return on investment in receivables is 18% per annum. Assume a 360-day year.

You are required to:

For each policy, compute:

- Expected profit before tax, considering contribution, bad debts and opportunity cost of funds tied up in receivables.
- Which credit policy would you recommend? Give reasons and show all workings clearly.

- II. Define cash management. What are the key objectives of cash management in a firm? Explain any three of them in brief. (6 marks)