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Your Roll No. ....

1945

B.Sc. (H) Computer Science/II Sem. C

Paper—205 (*ii*) : FINANCIAL MANAGEMENT

(Admissions of 2001 and onwards)

Time : 3 Hours *Maximum Marks : 75*

(Write your Roll No. on the top immediately on receipt of this question paper.)

Attempt *all* questions.

All questions carry equal marks.

1. (*a*) Discuss the *three* broad areas of financial decision making.

   (*b*) What is the justification for the goal of maximising the wealth of shareholders ? 7,8

2. (*a*) Distinguish between 'business risk' and 'financial risk'.

   (*b*) Critically evaluate the present value method used in capital budgeting decisions. 8,7

3. (*a*) A large size steel company is considering investing in a project that costs Rs. 90,00,000. The estimated scrap value after eight years is Rs. 10,00,000. The tax rate is 40%. The company uses straight line method of depreciation. The cash flow before tax rate is Rs. 16 lakhs annually for the next eight years. Calculate NPV of the project if the cost of capital is 10%. 10

(*b*) What is weighted average cost of capital ? Explain the rationable for calculating it. 5

4. (*a*) Let us consider the following information for Innovative Growth Limited :

- Existing capital structure : 1 million equity shares of Rs. 10 each
- Tax rate : 50 per cent.

Falcon Limited plans to raise additional capital of Rs. 10 million for financing an expansion project. In this context, it is evaluating two alternative financing plans :

(*i*) issue of equity shares (1 million equity shares at Rs. 10 per share), and

(*ii*) issue of debentures carrying 14 percent interest.

What will be the EPS under the two alternative financing plans for two levels of EBIT, say, Rs. 4 million and Rs. 3 million ? 9

(*b*) What is the relationship between EBIT and EPS ? 3

(*c*) "The break-even EBIT for two alternative financing plans is the level of EBIT for which the EPS is the same under both the financing plans." Explain. 3

5. (*a*) ABC Ltd. has 80,000 shares outstanding. The current market price of these shares is Rs. 15 each. The company expect a net profit of Rs. 2,40,000 during the year and it belongs to a risk-class for which the appropriate capitalization rate has been estimated to be 20%. The company is considering dividend of Rs. 3 per share for the current year.

(*i*) What will be the price of the share at the end of the year :

(*a*) if dividend is paid, and

(*b*) if the dividend is not paid ?

(*ii*) How many new shares must the company issue if the dividend is paid and the company needs Rs. 5,60,000 for an approved investment expenditure during the year ? Use MM model for the calculation.

(*iii*) What do you think of the dividend policy of the company as per the Walter model ? 9

(*b*) The following information is available in respect of the inventory costs of a firm :

Total annual consumption	600 units
Cost per unit	Rs. 6
Order cost	Rs. 10 per order
Carrying cost	20% of the value

Discount of 5% has been offered on an order of 200 units. Evaluate the discount offer. 6