[This question paper contains 4 printed pages]

Your Roll No

6184 **J**

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

Paper—205 (1) 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) Surya Ltd 's share has a current market price of Rs 80 The company recently paid a dividend of Rs 4 per share and investors expect a growth rate of 10% p a What is the company's cost of equity capital? If due to some adverse developments in the market, the estimated growth rate is revised to 8% p a and the market price of share falls to Rs 70, what is the revised cost of equity capital? 8

(b) What is a stable dividend policy? Why should a company follow a stable dividend policy? 7

2 (a) The earnings per share (EPS) of Bond Ltd are Rs 20 It has a rate of return on investment of

25% and the cost of capital is 20%. If Gorden's model is used

(1) What should be the market price of the share if the dividend payout ratio is 40%?

(2) If the company actually adopts a dividend payout ratio of 50%, what should be the price of share? 8

(b) Explain the concept of working capital. Briefly discuss factors which determine the working capital needs of a firm. 7

3 (a) Brightways Ltd needs Rs. 50,00,000 for expansion of business The expansion plan is expected to yield an annual earnings before interest and taxes (EBIT) of Rs 12,00,000 Management is considering two alternative financing plans ·

Plan I Raise the entire amount by issuing 2,00,000 equity shares at Rs. 25 each

Plan II Raise Rs 25,00,000 by issuing equity shares at Rs 25 each and borrow Rs 25,00,000 at 15% p a rate of interest

Calculate earnings per share (EPS) under each plan If the objective is to maximise earnings per share, which plan should be selected? 7

(b) What are the major financial management decisions made by a firm? Explain briefly each of them 8

4 (a) Zen Ltd requires 50,000 units of a certain item per year The purchase price per unit is Rs 50 The carrying cost of inventory is 20% of the unit cost and the ordering cost per order is Rs 100

Calculate the Economic Order Quantity (EOQ) What will be the total cost of ordering and cost of carrying inventories if the order size is equal to EOQ? 9

(b) What are capital budgeting decisions? Why are they significant for a firm? 6

5 (a) Sigma Ltd is considering two mutually exclusive investment proposals Both the proposals would require an investment of Rs 50 lakh each Company's cost of capital is 15% and the after tax cash inflows of the proposals are as follows

Year	*After tax Cash Inflows* (Rs in lakh)	
	Proposal I	*Proposal II*
1	18	35
2	25	25
3	30	15
4	22	10
5	12	6

Calculate the payback period and NPV of both the proposals Which investment proposal should be selected? 10

(b) Phoenix Ltd has borrowed Rs 50,00,000 at an interest rate of 14% p.a The loan is to be repaid in 4 equal annual instalments starting the end of second year from now What would be the amount of annual instalments? 5