UNIVERSITY OF NORTH BENGAL

B.Com. Honours 5th Semester Examination, 2020

CC12-COMMERCE

FUNDAMENTALS OF FINANCIAL MANAGEMENT

Full Marks: 60

ASSIGNMENT

The figures in the margin indicate full marks.

Answer *all* the questions from the following 15×4 = 60

1. Explain how profit maximization objective differs from wealth/value maximisation objective in Financial Management. 15

2. X Ltd., a profit making company, has a paid-up capital of Rs. 100 lacs consisting of 10 lacs ordinary shares of Rs. 10 each. Currently, its annual pretax profit is Rs. 60 lacs. The company's shares are listed and are quoted in the range of Rs. 50-80. The management wants to diversify production and has approved a project which will cost Rs. 50 lacs and is expected to yield a pretax income of Rs. 40 lacs per annum. To raise this additional capital, the following options are under consideration of management: 15

   (i) To issue equity shares for the entire amount at a premium of Rs. 15 per share.

   (ii) To issue 16% non-convertible debentures of Rs. 100 each for the entire amount.

   (iii) To issue equity share for Rs. 25 lacs at a premium of Rs. 40 each per share at 16% non-convertible debentures for the balance amount.

   Calculate the best option of raising the capital, keeping in mind that the company intends to maximise its earning per share to maintain its goodwill. The company is paying income tax at 50%.

3. **Calculate:** 15

   (i) The Pay Back Period, Net Present Value, Internal Rate of Return and Account Rate of Return of each project.

   (ii) Identify the rankings of the projects by each of the four methods from the data given below:

Expected cash flows of 3 projects—

Period	Rs. in '000		
	Project A	Project B	Project C
	Rs.	Rs.	Rs.
0	(5000)	(5000)	(5000)
1	900	700	2000
2	900	800	2000
3	900	900	2000
4	900	1000	1000
5	900	1100	-
6	900	1200	-
7	900	1300	-
8	900	1400	-
9	900	1500	-
10	900	1600	-

4. The following annual figures relate to XYZ Co. 15

	Rs.
Sales (at two months' credit)	36 lacs
Materials consumed (suppliers extend two months' credit)	9 lacs
Wages paid (one month lag in payment)	7.20 lacs
Manufacturing Expenses (expenses are paid one month in arrear)	9.60 lacs
Administrative Expenses (one month lag in payment)	2.40 lacs
Sales Promotion Expenses (paid quarterly in advance)	1.20 lacs

The company sells its products on gross profit of 25%. Depreciation is considered as a part of cost of production. It keeps one month stock each of raw material and finished goods and a cash balance of Rs. 1.0 lac. Assuming a 20% safety margin, compute the working capital requirements of the company on cash basis. Ignore work-in-progress.

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