



Institute of Management
JK Lakshmipat University
Jaipur
END TERM EXAMINATION



B.Com(Hons.) Sem- IV
MM: 50 Marks

Course: Business Finance
Time: 3 Hours
Subject code: BCH401

Instructions: Attempt any three questions from Section A. Section B is compulsory.

Section A (Each question carries 10 marks each)

Q1..Discuss one relevant and one irrelevant theory of capital structure decision making.

Q2. You want to buy a 285 litre refrigerator for Rs. 10,000 on an instalment basis. A distributor is prepared to sell the refrigerator on instalments. He states that the payment will be made in four years, interest rate being 12 percent. The annual payment is as follows.

Principal	10,000
Four year of interest at 12%	4,800

	14,800

Annual payments (Rs. 14,800/4) i.e Rs. 3700.

What rate of return is the distributor earning? If your opportunity cost of capital is 14 percent will you accept the offer? Why?

Q3. Compute the duration of the operating cycle for Newarties Ltd for each of the two years and comment on the increase and decrease for the data given as below-

Particulars	Year 1 (Rs.)	Year 2 (Rs.)
Raw materials	17000	22950
Work in Progress	11900	15300
Finished Goods	17850	20400
Purchases	81600	114750
Cost of Goods sold	119000	153000
Sales	136000	170000
Debtors	27200	42500
Creditors	13600	15300

Assume 360 days per year.

Q4. A company has assets of Rs.10,00,000 financed wholly by equity share capital. There are 1,00,000 shares outstanding with a book value of Rs. 10 per share. Last year's profit before taxes was Rs. 2,50,000. The tax rate is 35 percent. The company is thinking of an expansion programme that will cost Rs. 5,00,000. The financial manager considers three financing plans:

- I. Issuing 50,000 shares at Rs. 10 per share
 - II. Borrowing Rs. 5,00,000 at an interest rate of 14 percent, or
 - III. Issuing Rs. 5,00,000 preference share with a dividend of 14 percent.
- The profit before interest and tax are estimated to be Rs. 3,75,000 after expansion.

You are required to prepare EBIT-EPS chart and calculate:-

- a. the after tax rate of return on assets
- b. the earning per share, and
- c. the rate of return on shareholder's equity for each of the three financing alternatives.

Also, suggest which alternative should be accepted by the firm.

Q5. X Co. has a net operating income of Rs. 2,00,000 on an investment of Rs. 10,00,000 in assets. It can raise debt at a 16 percent rate of Interest. Assume that taxes do not exist.

- a) Using the NI approach and equity capitalization rate of 18 percent, compute the total value of the firm and weighted average cost of capital if the firm has –
 - i. no debt
 - ii. Rs.3,00,000 debt
 - iii. Rs.6,00,000 debt
- b) Using the NOI approach and an overall capitalization rate of 12 percent, compute the total value of the firm, value of shares and the cost of equity, if the firm has
 - i. no debt
 - ii. Rs.3,00,000 debt
 - iii. Rs.6,00,000 debt

Section B

Q6. (A)

“Working capital management is one of the essential aspects of financial management for a firm”, do you agree? What shall be the repercussions if a firm has (a) paucity of working capital, (b) excess working capital? Discuss the various factors that determine the working capital needs of a firm. (10 Marks)

Q6 (B) 10 Marks.

While preparing a project report, on behalf of a client, you have collected the following facts. Estimate the net working capital required for that project. Add 10 percent to your computed figure to allow for contingencies.

You may assume that production is carried on evenly throughout the year 52 weeks and wages and overheads accrue similarly. All sales are on credit basis only.

Estimated Cost per unit of production is –	Rs.
Raw material	42.4
Director Labour	15.9
Overhead(Exclusive of depreciation)	31.8
Total Cost	90.1

Additional information-

Selling price	Rs. 106 per unit
Level of activity of production per annum	1,00,000 units
Raw material in stock	average 4 weeks
Work in progress	average 2 weeks
Finished goods in stock	average 4 weeks
Credit allowed by suppliers	average 4 weeks
Credit allowed to debtors	average 8 weeks
Lag in payment of wages	average 1 ½ weeks
Cash at bank is expected to be Rs. 1,25,000.	





Table C: Present Value Factor of a Lump Sum (PVF) of Re 1

Year	Interest Rate													
	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	11%	12%	13%	14%
1	0.990	0.980	0.971	0.962	0.952	0.943	0.935	0.926	0.917	0.909	0.901	0.893	0.885	0.877
2	0.980	0.961	0.943	0.925	0.907	0.890	0.873	0.857	0.842	0.826	0.812	0.797	0.783	0.769
3	0.971	0.942	0.915	0.889	0.864	0.840	0.816	0.794	0.772	0.751	0.731	0.712	0.693	0.675
4	0.961	0.924	0.888	0.855	0.823	0.792	0.763	0.735	0.708	0.683	0.659	0.636	0.613	0.592
5	0.951	0.906	0.863	0.822	0.784	0.747	0.713	0.681	0.650	0.621	0.593	0.567	0.543	0.519
6	0.942	0.888	0.837	0.790	0.746	0.705	0.666	0.630	0.596	0.564	0.535	0.507	0.480	0.456
7	0.933	0.871	0.813	0.760	0.711	0.665	0.623	0.583	0.547	0.513	0.482	0.452	0.425	0.400
8	0.923	0.853	0.789	0.731	0.677	0.627	0.582	0.540	0.502	0.467	0.434	0.404	0.376	0.351
9	0.914	0.837	0.766	0.703	0.645	0.592	0.544	0.500	0.460	0.424	0.391	0.361	0.333	0.308
10	0.905	0.820	0.744	0.676	0.614	0.558	0.508	0.463	0.422	0.386	0.352	0.322	0.295	0.270
11	0.896	0.804	0.722	0.650	0.585	0.527	0.475	0.429	0.388	0.350	0.317	0.287	0.261	0.237
12	0.887	0.788	0.701	0.625	0.557	0.497	0.444	0.397	0.356	0.319	0.286	0.257	0.231	0.208
13	0.879	0.773	0.681	0.601	0.530	0.469	0.415	0.368	0.326	0.290	0.258	0.229	0.204	0.182
14	0.870	0.758	0.661	0.577	0.505	0.442	0.388	0.340	0.299	0.263	0.232	0.205	0.181	0.160
15	0.861	0.743	0.642	0.555	0.481	0.417	0.362	0.315	0.275	0.239	0.209	0.183	0.160	0.140
16	0.853	0.728	0.623	0.534	0.458	0.394	0.339	0.292	0.252	0.218	0.188	0.163	0.141	0.123
17	0.844	0.714	0.605	0.513	0.436	0.371	0.317	0.270	0.231	0.198	0.170	0.146	0.125	0.108
18	0.836	0.700	0.587	0.494	0.416	0.350	0.296	0.250	0.212	0.180	0.153	0.130	0.111	0.095
19	0.828	0.686	0.570	0.475	0.396	0.331	0.277	0.232	0.194	0.164	0.138	0.116	0.098	0.083
20	0.820	0.673	0.554	0.456	0.377	0.312	0.258	0.215	0.178	0.149	0.124	0.104	0.087	0.073
25	0.780	0.610	0.478	0.375	0.295	0.233	0.184	0.146	0.116	0.092	0.074	0.059	0.047	0.038
30	0.742	0.552	0.412	0.308	0.231	0.174	0.131	0.099	0.075	0.057	0.044	0.033	0.026	0.020
40	0.672	0.453	0.307	0.208	0.142	0.097	0.067	0.046	0.032	0.022	0.015	0.011	0.008	0.005
50	0.608	0.372	0.228	0.141	0.087	0.054	0.034	0.021	0.013	0.009	0.005	0.003	0.002	0.001

(Contd...)

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