2026

FINANCIAL MANAGEMENT — HONOURS

Paper : DSCC-14

Full Marks : 75

The figures in the margin indicate full marks.

Candidates are required to give their answers in their own words as far as practicable.

Group - A

Answer ***any five*** questions.

1. Define the term 'financial management'. Why is wealth maximization preferred over profit maximization as the goal of a firm? 2+3

2. A company operates at a production level of 2,000 units. The contribution is ₹ 30 per unit, operating leverage is 3 and combined leverage is 12. If tax rate is 40%, what would be its earnings after tax (EAT)? 5

3. SA Ltd. is considering a project of estimated economic life of seven years. The initial investment is estimated at ₹ 210 lakh. The annual profit before depreciation and tax is expected to be ₹ 52 lakh for first five years and ₹ 20 lakh for the remaining period of life. Find out the estimated annual cash flows from the project for first two years with applicable depreciation rate of 15 per cent under diminishing balance method and a corporate tax rate of 35 per cent. 5

4. AP Ltd. is considering acceptance of a project for their new venture. Apply the concept of accounting rate of return to the following projects, both of which require an investment of Rs. 2 lakh and select the favourable one : 5

	Project X	**Project Y**
Economic Life	5 years	5 years
Cash flow - Year 1	₹ 55,000	₹ 75,000
- Year 2	₹ 55,000	₹ 40,000
- Year 3	₹ 65,000	₹ 75,000
- Year 4	₹ 65,000	₹ 70,000
- Year 5	₹ 55,000	₹ 65,000

5. Explain the term Dividend Pay-Out (D/P) Ratio in terms of dividend policy of a company. What is the Retention Ratio for dividend policy? 3+2

6. Calculate the cost of preference share for PC Ltd. from the following information : 5
   - 50,000 12% preference share of ₹ 100 each.
   - Preference shares are redeemable after 5 years.
   - Preference shares were issued at 10% premium.
   - Tax rate 35 per cent.

7. SDG Ltd. needs to redeem 1000 debentures of ₹ 1,000 each at 10% premium at the end of 5 years from now. Calculate the minimum amount to be invested at the end of every financial year so that the fund is comfortably available at the time of redemption. Investment rate is 10 per cent per annum. 5

8. Write a short note on conservative policy of financing working capital. 5

Group - B

Answer ***any five*** questions.

9. SG Ltd. has the following capital structure :

25,000 nos. Equity shares @ ₹ 10 each (market value of Equity shares : ₹ 3,25,000)

General reserve : ₹ 60,000.

1500 nos. 12% Debentures @ ₹ 100 each.

The expected dividend per equity share is ₹ 1.30 with an expected growth rate of 5%. The applicable tax rate for SG Ltd. is 40%. Calculate the overall cost of capital of the company using market value as weights. 10

10. TR Ltd. furnished the following information:

Sales : 1000 units @ ₹ 2,000 each; Variable cost is 75 per cent of sales; Operating fixed cost : ₹ 2 lakh; Interest paid : ₹ 80,000.

(a) Calculate degree of operating leverage.

(b) How much will be the change in earnings before interest and tax if the sales increases to 1270 units? 4+6

11. TJT Ltd. provides the following particulars related to cost and sales data :

- Raw materials : ₹ 80 per unit, Overhead : ₹ 60 per unit, Sales price : ₹ 200 per unit.
- The company earns 15% profit on sales price.
- Raw materials are kept in stock for one month.
- Processing time can be taken as, on average, two weeks. At this stage, the material is fully introduced, but other expenses are 50% incurred.
- Finished goods are in stock for one month.
- Credit enjoyed by TJT Ltd. is one month; whereas, they allow credit for two months.
- The time-lags in wage and overhead payment are 1.5 weeks and 4 weeks respectively.
- One-fourth of the output is sold against cash; cash in hand and at bank is desired to be maintained at 20% of total current assets.
- TJT Ltd. considers debtors at sales value.

You are required to prepare a statement showing the working capital needed to finance a level of annual activity of 26,000 units of production. [Make necessary assumptions.] 10

12. (a) Discuss how the operating cycle concept provides a more dynamic understanding of working capital requirements.

(b) What is public deposit? Distinguish between 'Operating lease' and 'Financial lease'. 5+(2+3)

13. What do you mean by 'optimum capital structure'? What are its features? What factors are to be considered in determining capital structure? 3+3+4

14. A company has 10,000 equity shares of ₹ 100 each. Its rate of return is 24% and it follows a policy of retaining 50% of its earnings. If the cost of capital is 18%, calculate the market price per equity share using Gordon's Model of Dividend Policy.

How would the market price change if the D/P Ratio becomes 90% or 10%? 5+(2½+2½)

15. Following are the details of two mutually exclusive project proposals of a company :

		Project X ₹ in lakhs	Project Y ₹ in lakhs
Project cost		700	700
Cash inflows:	Year 1	100	500
	Year 2	200	400
	Year 3	300	200
	Year 4	450	100
	Year 5	600	100

Assume no residual values at the end of fifth year. The company's cost of capital is 10%.

You are asked to calculate the following for each of the two projects :

(a) Net Present Value using 10% discounting rate,

(b) Profitability Index.

Suggest which project proposal should be accepted by the company.

The present value of ₹ 1 at 10% discounting rates are as follows :

Year :	1	2	3	4	5
P.V. Factor @ 10% p.a. :	0.909	0.826	0.751	0.683	0.621

5+3+2

16. (a) Compare payback period method with discounted payback period in evaluating a project.

(b) Explain with an example, how capital rationing is done when all projects are divisible in nature. 5+5