2026

FINANCIAL MANAGEMENT — MDC

Paper : MDC-15

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. What is trading on equity? Illustrate the concept with a suitable example. 3+2

2. Mention five roles of chief financial officer. 5

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

4. Mr. Raj borrows ₹ 2,00,000 from a bank at an interest rate of 14% p.a. payable in 5 equal annual installments at the end of each year. Determine the amount of each annual installment.
[Given, PVIFA (14, 5) = 3.433] 5

5. From the following information, calculate the Degree of Operating Leverage (DOL) and Degree of Financial Leverage (DFL) :

Sales : ₹ 12,00,000; Variable cost : ₹ 5,00,000; Fixed cost : ₹ 2,00,000; Debt capital : 10% Debentures of ₹ 2,00,000. 2½+2½

6. A project requires an initial investment of ₹ 5,00,000. If the following amounts of cash inflows are taking place from the project in different years, determine the payback period : 5

Year	1	2	3	4	5
Cash Inflows (₹)	2,00,000	1,60,000	1,20,000	80,000	1,40,000

7. What is Working Capital Cycle? Mention any two short-term sources of working capital. 3+2

8. Calculate the cost of 12% preference share of ₹ 100 each, if they were issued at (i) 10 per cent premium, and (ii) 5 per cent discount. 2½+2½

Please Turn Over

Group - B

Answer ***any five*** questions.

9. Discuss the features of a sound capital structure. 10

10. Calculate operating leverage, financial leverage and combined leverage under situation I and II for financial plans A and B from the following information relating to the operation and capital structure of E Ltd. : 10

Actual production and sales : 2000 units; Selling price : ₹ 20 per unit; Variable Cost : ₹ 10 per unit.

Fixed Cost: under Situation I : ₹ 8,000; under Situation II : ₹ 10,000

Capital Structure :

	Financial Plan A (₹)	Financial Plan B (₹)
Equity share capital	10,000	25,000
Debt (Rate of Interest 10%)	30,000	15,000

11. Two Projects X and Y, both require an initial investment of ₹ 2,25,000 and is expected to generate the following net cash inflows :

Year	Net cash inflows (₹ '000) from Project X	Net cash inflows (₹ '000) from Project Y
1	96	82
2	98	82
3	98	82
4	90	82
5	72	82

Compute net present value of the projects and select the optimum one if the minimum desired rate of return is 10%. 10

12. From the following information extracted from the books of Sharmila Ltd., prepare a statement showing the working capital requirement needed to finance an output of 10,400 units of output per year : 10

	Amount per unit (₹)
Raw materials	8
Direct labour	2
Overheads	6
Total Cost	16
Profit	4
Selling price	20

Additional information :

Raw materials are in stock on an average for – 1 month

Materials are in process – ½ month

Finished goods are in stock – 6 weeks

Credit allowed by creditors – 1 month

Credit allowed to debtors – 2 months

Lag in payment of wages – 1½ month

Cash in hand and at bank – ₹ 25,000.

The production is carried on evenly during the year and wages and overheads accrue similarly.

13. Armada Ltd. has assets of ₹ 3,20,000 which have been financed with ₹ 1,04,000 of debt, ₹ 1,80,000 of equity and a general reserve of ₹ 36,000. The company's total profit after interest and taxes (PAT) for the year ended 31.03.2026 were ₹ 27,000. The company pays 8% interest on borrowed funds and is in the 30% tax bracket. It has 1,800 equity shares of ₹ 100 per share, presently selling at a market price of ₹ 120 per share.

What is the weighted average cost of capital of Armada Ltd. using book value as weight? 10

14. The Earnings Per Share (EPS) of a company is ₹ 10. It has an internal rate of return of 15% and the capitalization rate of its risk class is 12.5%. If Walter Model is used :

(a) What should be the optimum payout ratio of the company?

(b) What should be the price of a share at this payout? 5+5

15. Discuss any two strategies of financing working capital. 5+5

16. Write short notes on :

(a) Profitability Index

(b) Capital Rationing. 5+5
