TILAK MAHARASHTRA VIDYAPEETH
(Department of Distance Education)

M.Com. – 1st Year (Sem. I)

Home Assignment – Dec. 2013

Subject: Financial Management

Subject Code: - MCA – 106

Instructions:
1) All questions carry equal marks (8 marks each)
2) Attempt any 5 questions

1. What do you mean by finance? Why it is important in business.

2. Following are the figures related to Abhas Ltd.:
   Sales: Rs. 10,00,000
   Variable Cost: 40% of Sales,
   Fixed cost: Rs. 3,00,000
   Interest: Rs.20,000.
   Calculate Operating Leverage, Financial Leverage and Combined Leverage. Also state the change in above Leverage if selling price is increased by 10%.

3. Shreya Ltd. has Rs. 5,00,000 as its capital contributed by various sources and dividends are as follows:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Book Value</th>
<th>Market Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity Shares</td>
<td>2,00,000</td>
<td>3,00,000</td>
</tr>
<tr>
<td>Preference shares</td>
<td>1,00,000</td>
<td>1,20,000</td>
</tr>
<tr>
<td>Debentures</td>
<td>2,00,000</td>
<td>1,80,000</td>
</tr>
<tr>
<td>total</td>
<td>5,00,000</td>
<td>6,00,000</td>
</tr>
</tbody>
</table>

   The following costs are incurred on the above mentioned issues of capital. Corporate tax rate is 50%
   1. Price of shares is currently Rs. 150 and rate of dividend is Rs. 8 per share which is expected to grow at the end of the year by 7%
   2. Rate of preference dividend is 11% and its market price is Rs.125
   3. Debentures are carrying interest rate of 9%
Compute the weighted average cost of capital using

i) Book Value as weights
ii) Market value as weights

4. You are asked to prepare a cash budget for the company for three month from July

<table>
<thead>
<tr>
<th>Months</th>
<th>Sales</th>
<th>Purchases</th>
<th>Wages</th>
<th>Expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td>April</td>
<td>40000</td>
<td>60000</td>
<td>10000</td>
<td>3000</td>
</tr>
<tr>
<td>May</td>
<td>50000</td>
<td>60000</td>
<td>9000</td>
<td>4500</td>
</tr>
<tr>
<td>June</td>
<td>60000</td>
<td>70000</td>
<td>9000</td>
<td>6000</td>
</tr>
<tr>
<td>July</td>
<td>70000</td>
<td>60000</td>
<td>11000</td>
<td>5000</td>
</tr>
<tr>
<td>August</td>
<td>80000</td>
<td>70000</td>
<td>10000</td>
<td>6500</td>
</tr>
<tr>
<td>September</td>
<td>70000</td>
<td>90000</td>
<td>10500</td>
<td>7500</td>
</tr>
</tbody>
</table>

1. Cash Balance on 1st July is expected to be Rs. 5,000/-
2. 20% are Cash sales on which 5% discount is allowed. Balance amount is collected in two installments in the following months.
3. 50% of purchases are paid in following months and remaining 50% in the second month following.
4. Under H.P. agreement Rs. 8, 000/- is to be paid in respect of machinery already hired.
5. 2% commission on sales is to be paid in following months.
6. Income Tax Rs. 25,000/- is to be paid in August.
7. An application for Loan for Rs. 20,000/- has been made and it is expected to received in September.
8. A provision of Rs. 10,000/- should be made in August in respect of asset to be acquired.
9. Wages and Expenses are paid in following month.

5. Explain Modigliani Miller approach of capital structure in detail.

6. Write Short notes (any two)
   i. Financing of Current Assets
   ii. Receivables Management
   iii. Motives for holding cash
   iv. EPIT – EPS Analysis