B.Com.(A&F) DEGREE EXAMINATION,NOVEMBER 2018
III Year V Semester
Core Major- Paper XVI
FINANCIAL MANAGEMENT

Time : 3 Hours **Max.marks :75**

Section A $(10 \times 2 = 20)$ Marks

Answer any **TEN** questions

1. Define the term Financial Management.
2. What are the sources of raising long term funds ?
3. How to compute Net Income ?
4. Find out financial leverage with the following information:

   Operating profit Rs.60,000

   Preference dividend Rs.20,000

   Market price Rs.10
5. Calculate cost of equity: Given profit after tax Rs.90,00,000

   Number of equity shares 10,00,000

   Market price per share Rs.75.
6. Given the EPS Rs.90,00,000 and Number of equity shares 10,00,000. Calculate cost of equity.
7. What are Retained Earnings?
8. What is the cost of debenture when Interest after tax is Rs.16.50 cr and the value of 15% Debentures of Rs.100 each Rs.220 cr.
9. What is Gross working capital?
10. What is Stock dividend?
11. Compute net working capital. Total assets Rs.50,000 Current assets Rs.4,000 Current liabilities Rs.1,000 Debentures Rs.8,000.
12. A Company issues 10,000 10% Preference shares of Rs. 100 each. Cost of issue is Rs. 2 per share.Calculate Cost of Preference Capital if the shares are issued at par.

Section B $(5 \times 5 = 25)$ Marks

Answer any **FIVE** questions

13. What are the functions of finance manager?

14. R ltd. is expected an annual EBIT of Rs.1,00,000. The company has Rs.4,00,000 in 10% debentures. The equity capitalisation rate is 12.5%. The company proposes to issue additional equity shares of Rs.1,00,000 and use the proceeds for redemption of debentures of Rs.1,00,000. Calculate the value of the firm (V) and the overall cost of capital(Ko).
15. K brothers has sale of Rs.10,00,000 variable costs Rs.7,00,000 and fixed costs Rs.2,00,000 and debt of Rs.5,00,000 at 10% rate of interest. Calculate operating leverage, financial leverage and combined leverages ? If the firm wants to double its earning before interest and tax, how much a rise in sales would be needed on a percentage basis?
16. The existing capital structure of ABC ltd. is as follows:

    Equity shares of Rs.100 each Rs.40,00,000

    Retained earnings Rs.10,00,000

    9% Preference shares Rs.25,00,000

    7% Debentures Rs.25,00,000

    Company earns a return of 12% and the tax on income is 50%. Company wants to raise Rs.25,00,000 for its expansion project for which it is considering following alternatives :

    i)Issue of 20,000 equity shares at a premium of Rs.25 per share

    ii. Issue of 10% preference shares

    iii)Issue of 9% debentures.

    iv) Projected that the P/E ratios in the case of equity, preference shares and debentures financing would be 20, 17 and 16 respectively which alternative would you consider to be the best.
17. C ltd. earnings Rs.5 per share. The capitalisation rate is 10% and the return on investments is 12%. Under Walter's model, determine The optimum payout and the market price of the share if the payout is 40%.
18. Write a note on Commercial paper.
19. K Ltd., provides you the following information.

    (a) Nature of Business: Customer Retailing

    (b) Projected Annual Sales: Rs. 9,00,000

    (c) Percentage of net profit to Cost of sales 20%

    (d) Average Credit allowed to debtors 1 month.

    (e) Average Credit allowed by Creditors 2 months.

    f) Average stock carrying in terms of sales requirement 2.5 month;

    g) Add 10% to allow for contingencies.

Section C $(2 \times 15 = 30)$ Marks

Answer any **TWO** questions

20. Honda ltd. has an equity capital 6,000 shares of Rs.100 each. The company plans to raise Rs.4,00,000 for expansion and modernisation. The following alternatives are under consideration.

    a) Issue of common stock

    b)Issue of common stock for Rs.2,00,000 and 10% debt for Rs.2,00,000

    c) Issue of 10% debt

    d) Issue of 10% preference shares for Rs.2,00,000 and 10% debt for Rs.2,00,000.

    The company's existing earnings before interest and taxes are Rs.4,00,000. The rate of corporate tax is 50%. Determine the earnings per share in each plan.

21. The following information relates to S ltd. You are required to calculate the weighted average cost of capital using, (a) book value weights and (b) market value weights

The present book value capital structure is :	Rs.
Debentures (Rs.100 per debenuture)	8,00,000
Preference shares (Rs.100 each)	2,00,000
Equity shares (Rs.10 per share)	10,00,000

    All these securities are traded in the market. The recent prices are :

    Debentures Rs.110 Preference shares Rs.120 Equity shares Rs.22

    Anticipated external financial opportunities are :

    i) Rs.100 per debenture redeemable at par; 20 year maturity 8% coupon rate, 4% floating costs, sale price Rs.100

    ii)Rs.100 preference shares, redeemable at par; 15 years maturity, 10% dividend rate, 5% floating costs, sale price Rs.100

    iii)Equity shares : floatation costs Rs.2 per share, sale price Rs.22

    Dividend expected on the equity shares at the end of the year is Rs.2 per share. Expected growth rate in dividend is 5%.The company has the practice of distributing all its earnings in the form of dividends. The corporate tax is 50%.

22. The earnings per share of A ltd. are Rs.10. The rate of capitalisation is 10% and the retained earnings can be employed to yield a return of 20%, The company is considering a pay out of i.20% ii.40% iii.60% which of these would maximise the wealth of the shareholders as per Walter's model?

23. D wishes to commence a new trading business and gives the following information :

    i)Total estimated sales Rs.6,00,000 p.a.

ii)His fixed expenses are estimated at Rs.1,000 per month and variable expenses equal to 5% of his turnover

iii)He expects to fix a sale price for each product which will be 25% in excess of his cost of purchase

iv)He expects to turnover his stock 4 times in a year

v)The sales and purchases will be evenly spread throughout the year. All the sales will be for cash, but he expect one month's credit for purchases

Calculate : (a) His estimated profit for the year (b)His average working capital requirements.