B.Com. (Hons) DEGREE EXAMINATION,NOVEMBER 2018
III Year V Semester
Core Major-Paper XXIV
FINANCIAL MANAGEMENT

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

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

Answer **ALL** the questions

1. Define Financial Management
2. What is Net Present Value?
3. State any two differences between specific cost and composite cost.
4. What do you mean by financial leverage?
5. What is Regular Working capital?
6. Raj makes an initial deposit of Rs.2,00,000 in Laxmi Bank Ltd. Interest is compounded at 10% p.a. for 6 years. Compute the amount of maturity.
7. A project has an initial investment of Rs.2,00,000. It will produce cash flows after tax of Rs.50,000 per annum for six years. Compute the payback period for the project.
8. Kalyan Ltd. Issued 50,000 12% Debentures of Rs.100 each at par. The tax rate is 40%. Calculate cost of debt before tax.
9. Give formula to find financial leverage.
10. From the following information, determine the EOQ

    Annual consumption 90,000 units, Cost per unit Rs.50, Buying cost per order Rs.10, Cost of carrying inventor 10% of cost.

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

Answer any **FIVE** questions

11. What are the effects of over capitalization on Company and Shareholders?
12. Bring out the purpose of maintaining receivables.
13. Compute ARR from the following:

    Cost of asset - Rs. 4,00,000

    Useful life - 5 years

    Cash flow after tax(CFAT) - Rs. 1,72,000 p.a.
14. A company issues Rs.10,00,000, 13% debentures at a discount of 5%. The debentures are redeemable after 5 years at a premium of 5%. Calculate before tax and after tax cost of debt, if the tax rate is 50%.

15. The following information relates to Mukesh Ltd.

    Earnings per share R.9;

    Internal rate of return 18%;

    Cost of capital 12%; payout ratio 33.33%.

    Compute the market price under the Walter's model

16. Peerless Ltd is engaged in customer reatiling. You are required to forecast their working capital requirements from the following information:

    Projected annual sales Rs.6,50,000

    Percentage of net profit to cost of sales 25%

    Average credit allowed to debtors 10 weeks.

    Average credit allowed by creditors 4 weeks.

    Average stock carrying (in terms of sales requirement) 8 weeks

    Add 20% to allow for contingencies.

17. Calculate the operating, financial and combined leverages from the following information.

    Sales Rs.50,000; Variable cost Rs.25,000; Interest Rs.5,000

    Fixed cost Rs.15,000

18. From the following estimates, calculate the average amount of working capital required.

    a) Average amount locked up in stock:

Stock of finished goods and W.I.P.	Rs.10,000
Stock of stores, materials etc.	Rs.8,000

    b) Average Credit given:

Local sales 2 week's credit	Rs.1,04,000
Outside the state 6 week's credit	Rs.3,12,000

    c) Time available for payments:

For purchases 4 weeks	Rs.78,000
For wages 2 weeks	Rs.2,60,000

    d) Add 10% to allow for contingencies

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

PART - A - Case Study - Compulsory Question

19. You have just graduated from the MBA program of a large university, and one of your favorite courses was "Today's Entrepreneurs." In fact, you enjoyed it so much you have decided you want to "be your own boss." While you were in the master's program, your grandfather died and left you $1 million to do with as you please. You are not an inventor, and you do not have a trade skill that you can market; however, you have decided that you would like to purchase at least one established franchise in the fast-foods area, maybe two (if profitable). The problem is that you have never been one to stay with any project for too long, so you figure that your time frame is three years. After three years you will go on to something else.
You have narrowed your selection down to two choices: (1) Franchise L, Lisa's Soups, Salads, & Stuff, and (2) Franchise S, Sam's Fabulous Fried Chicken. The net cash flows shown below include the price you would receive for selling the franchise in Year 3 and the forecast of how each franchise will do over the 3-year period. Franchise L's cash flows will start off slowly but will increase rather quickly as people become more health conscious, while Franchise S's cash flows will start off high but will trail off as other chicken competitors enter the marketplace and as people become more health conscious and avoid fried foods. Franchise L serves breakfast and lunch, while Franchise S serves only dinner, so it is possible for you to invest in both franchises. You see these franchises as perfect complements to one another: You could attract both the lunch and dinner crowds and the health conscious and not so health conscious crowds without the franchises directly competing against one another.
Here are the net cash flows (in thousands of dollars):

	Expected Net Cash Flows	
Year (t)	Franchise S	Franchise L
0	($100)	($100)
1	70	10
2	50	60
3	20	80

Depreciation, salvage values, net working capital requirements, and tax effects are all included in these cash flows. You also have made subjective risk assessments of each franchise and concluded that both franchises have risk characteristics that require a return of 10%.

a. What is the rationale behind the NPV method? According to NPV, which franchise or franchises should be accepted if they are independent? Mutually exclusive?

b. What is the rationale for the payback method? According to the payback criterion, which franchise or franchises should be accepted if the firm's maximum acceptable payback is 2 years, and if Franchise L and S are independent? If they are mutually exclusive?

PART - B

Answer any **ONE** questions

20. The following information is provided in respect of the specific cost of capital of different sources along with the book value and market value weights.

Source	C/C	BV	MV
Equity Share Capital	18%	0.50	0.58
Preference Share Capital	15%	0.20	0.17
Long term debts	7%	0.30	0.25

(a) Calculate the weighted average cost of capital, using both the BV and MV weights.

(b) Calculate the WMCC using marginal weights given that the company intends to raise additional funds using 50% long term debts, 35% preference shares and 15% by retained profits.

21. The capital structure of Madan Ltd. consists of equity share capital of Rs.8,00,000 (shares of Rs.100 each) and Rs.8,00,000 of 12% debentures. Sales have increased from 80,000 units to 1,00,000 units; the selling price is Rs.15 per unit, variable cost amounts to Rs.9 per unit and fixed cost amounts to Rs. 1,60,0000. The income tax rate is assumed to be 50%

Required:

(a) Calculate the percentage increase in EPS

(b) Determine operating leverage at 80,000 units and 1, 00,000 units.

(c) Determine financial leverage at 80,000 units and 1, 00,000 units.