B.Com(ISM) DEGREE EXAMINATION,APRIL 2019
II Year IV Semester
Financial Management

Time : 3 Hours **Max.marks :60**

Section A $(10 \times 1 = 10)$ Marks

Answer any **TEN** questions

1. Define financial management.
2. What do you mean by liquidity?
3. Give the meaning of capital structure
4. What is cost of debt?
5. Define Capital budgeting.
6. Define Working capital.
7. Calculate financial leverage from the following:

   Contribution Rs.2,40,000 ; Operating profit(EBIT) Rs.1,12,000;

   Profit before tax Rs.64,000
8. Rosy Ltd. Issued 20,000 debentures of Rs.100 each on 1st April 2009. The cost of issue was Rs.50,000. The company's tax rate is 35%. Determine interest after tax.
9. Earning per share(EPS) Rs.15; Market price per share Rs.120

   No. of equity shares 900

   Compute cost of equity capital.
10. A project cost Rs.2,50,000 and yields an annual cash inflow of Rs.50,000 for 7 years. Calculate its payback period.
11. Purchase price Rs.40,000

    Profit before tax Rs.10,000

    Tax rate @50%

    Compute ARR
12. From the following information estimate the working capital.

    Stock Rs.1,00,000; debtors Rs.40,000; cash in hand Rs.10,000; accrued expenses Rs.2,000; Trade creditors Rs.45,000; Bank overdraft Rs.20,000 and outstanding expenses Rs.3,500.

Section B $(5 \times 4 = 20)$ Marks

Answer any **FIVE** questions

13. Explain the profit maximisation concept.
14. Describe the net income approach to capital structure.
15. A firm sells its only product at Rs.12 per unit. Its variable cost is Rs.8 per unit. Present sales are 1000 units. Calculate the operating leverage in each of the following situations:

    I.) When fixed cost is Rs.1,000

    II.) When fixed cost is Rs.1,200

    III.) When Fixed cost is Rs.1,500

16. Wind Ltd a widely held company is considering a major expansion of its production facilities and the following financing alternatives are available:

	Alternatives (Rs.in lakh)		
	x	y	z
Equity share capital(Rs.10each)	60	30	10
12% Debentures	--	20	25
15% Loan from a financial institution	--	10	25

Expected rate of return before tax is 20%. The rate of dividend of the company is not less than 18%. The company at present has low debt. Corporate taxation is 35%. Which of the alternative you would choose?

17. A firm issues 11% debentures of Rs.10,00,000 payable at the end of 10th year in lump sum. It allowed 2% commission to brokers. The tax rate being 50%. Find out the cost of debt.
18. Compute ARR from the following data:

Cost of asset	Rs.4,00,000
Useful life	5 years
Cash flow after tax (CFAT)	Rs.1,72,000 p.a

19. From the following information extracted from the books of a manufacturing company, compute the operating cycle in days:

Period covered 365 days

Average period of credit allowed by suppliers 16 days

	Rs.
Average total of debtors outstanding	4,80,000
Raw materials consumption	44,00,000
Total production cost	1,00,00,000
Total cost of sales	1,05,00,000

Sales for the year	1,60,00,000
Value of average stock maintained:	
Raw materials	3,20,000
Work-in-progress	3,50,000
Finished goods	2,60,000

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

Answer any **TWO** questions

20. Describe the role of finance manager.
21. The following figures relate to two companies. You are required to

    Calculate the operating, financial and combined leverages of the two companies.

	X Ltd.	Y Ltd.
Sales	4,00,000	8,00,000
Less: variable cost	1,60,000	2,40,000
Contribution	2,40,000	5,60,000
Less: fixed cost	1,28,000	2,80,000
Operating profit	1,12,000	2,80,000
Less: Interest	48,000	1,20,000
Profit before tax	64,000	1,60,000

22. Payoff Ltd. Is producing articles mostly on hand labour and is considering to replace it by a new machine. There are two alternative models M and N of the new machine.Prepare a statement of profitability showing the payback period from the following information:

	Machine M	Machine N
Estimated life of the machine	4 yrs.	5 Yrs.
Cost of machine	Rs.9000	Rs.18,000
Estimated savings in scrap	500	800
Estimated savings in direct wages	6,000	8,000
Additional cost of maintenance	800	1,000
Additional cost of supervision	1,200	1,800
Ignore taxation		

23. Lotus Ltd. Is engaged in customer retailing. You are required to estimate its working capital requirements from the following data:

Projected annual sales	Rs.9,00,000
Percentage of net profit to cost of sales	20%
Average credit allowed to debtors	1 month
Average credit allowed by creditors	2 months
Average stock carrying(in terms of sales requirements)	$2\frac{1}{2}$ months
Add 10% to allow for contingencies.	