B.Com(A&F) DEGREE EXAMINATION,APRIL 2019
III Year V Semester
Financial Management

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

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

Answer any **TEN** questions

1. Define Financial Management.
2. Give two basic objectives of financial Management?
3. Find out the degree of operating leverage from the information given below

EBIT (2008) Rs.50000	Sales (2008) 20000 units
EBIT (2009) Rs.60000	Sales (2009) 28000 units

4. A firm requires total capital funds of Rs. 50,00,000 and has two options; All equity; and half equity and Half 15% debt. The equity shares can be currently issued at Rs.100 per share .The expected EBIT of the company is Rs.5,00,000 with tax rate at 40% .Find out the EPS under both the financial mix.
5. What do you mean by cost of capital?
6. Raj industries Ltd, issued 10,000 10% Debentures of Rs.100 each. The tax rate is 50%. Calculate the before tax and after tax cost of debt if the debentures are issued at par.
7. Calculate the cost of equity capital from the following particulars presented by X ltd; The current market price of a equity share of the company is Rs.80 .The current dividend per share is Rs.6.40 .Dividends are expected to grow @ 8%.
8. What are the two theories related to dividend policy?
9. Determine the Market price per share under Gordon's model;

EPS	Rs.8	Retention ratio:	25%
Capitalization rate:	10%	Rate of return:	15%

10. Hensman Ltd. earns Rs.15 per share. The company is capitalized at a rate of 12 % and has a return on investment of 18%.According to Walter's formula what should be the price per share at 60% dividend payout ratio?
11. Define Working capital.
12. Give the formula for calculating operating cycle of a business?

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

Answer any **FIVE** questions

13. What is the role of financial managers in financial management?

14. (i) Find the operating leverage from the following data:

Sales	Rs. 50,000
Variable cost	60%
Fixed Cost	Rs. 12,000

(ii) Find the financial leverage from the following data:

Net worth	Rs. 25,00,000
Debt/Equity	3/1
Interest rate	12%
Operating profit	Rs. 20,00,000

15. Company A and company B are in the same risk class and identical. In all respects expect that company A uses debt. While company B does not. Levered company has Rs. 20 Lakh debentures. Carrying 12% rate of interest. Both companies earn 20% before interest and taxes on their total assets of Rs. 50 lakh. Assume perfect capital markets, tax rate of 50% and captilaztion rate of 10% for an equity company. Compute the value of both companies under Net Income (NI) approach.

16. Rajan Ltd. has an annual profit of Rs.50,000 and the required rate of return of the shareholders is 10%. It is further expected that the shareholders will have to incur 3% brokerage cost of the dividends received and invested by them for making new investments. Find out the cost of retained earnings to the firm given that the tax rate applicable to shareholders is 30%.

17. The information relates to Tilal Ltd;

Ascertain the market price per share in the following cases using Gordon's Model. Rate of return (r) 10%, Earning per share (E) = Rs.30.

Dividend payout (1-b) %	Retention (b) %	Cost of equity % (k)
a) 50	50	15%
b) 90	10	10%

18. Explain the two concepts of working capital.

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. The existing capital structure of Risk Ltd. is as follows:

	Rs.
Equity shares of Rs 100 each	25,00,000
Retained earnings	15,00,000
10% preference shares	20,00,000
8% Debentures	20,00,000

Company earns a return of 15% and the tax on income is 35%. Company wants to raise Rs.18,00,000 for its expansion project for which it is considering following alternatives:

(i) Issue of 14,400 Equity Shares at a premium of Rs.25 per share

(ii) Issue of 11% Preference Shares

(iii) Issue of 10% Debentures

Projected that the P/E ratios in the case of equity, preference shares and debentures financing would be 15, 12 and 10 respectively. Which alternative would you consider to be the best. Give the reasons for your choice.

21. JKL Ltd. Has the following book- Value capital structure as on 31st March, 2006.

	Rs.
Equity share capital(2,00,000 shares)	40,00,000
11.5% Preference share capital	10,00,000
10% Debentures	30,00,000

	80,00,000

The equity share of the company sells for Rs. 20. It is expected that the company will pay next year a dividend of Rs. 2 per equity share, Which is expected to grow at 5% per annum forever. Assume a 35% corporate tax rate.

Required:

(i) Compute Weighted Average Cost of Capital (WACC) of the company based on the existing capital structure.

(ii) Compute the new WACC, if the company raises an additional Rs 20 Lakhs debt by issuing 12% Debentures. This would result in increasing the expected equity dividend to Rs.2.40 and leave the growth rate unchanged, but the price of equity share will fall to Rs.16 per share.

22. D Ltd. has 10 lakh equity shares outstanding at the beginning of the accounting year 2005. The current market price of the share is Rs.150 each. The board of directors of the company has recommended Rs.8 per share as dividend. The rate of capitalization, appropriate to the risk - class to which the company belongs is 12%.

    (i) Based on MM approach, Calculate the market price of the share of the company when the recommended dividend is (a) distributed; and (b) not declared.

    (ii) How many new shares to be issued by the company at the end of the accounting year on the assumption that the net income for the year is Rs. 2 Crores and the investment budget is Rs.4 crore when (a) the above dividends are distributed; and (b) dividends are not declared.

    (iii) Show that the market value of the shares at the end of the accounting year will remain the same whether dividends are distributed or not declared.

23. Compute the working capital requirements of Mohan Ltd., from the information given below:

Annual Sales	28,80,000
Cost of production (including depreciation Rs.190000)	24,00,000
Raw materials purchases	14,04,000
Overheads per month	65,000
Anticipated opening stock of raw materials	2,86,000
Anticipated closing stock of raw materials	2,60,000
Inventory norms:	
Raw materials	: 8weeks
Work-In-Progress	: 2 weeks
Finished goods	: 4 weeks
Credit allowed to debtors	: 4 weeks
Credit allowed by creditors	: 2 weeks
Cash balance desired to be maintained	: Rs.50000

    The company received an advance of Rs.80000 on sales orders.