M.Com(A&F) DEGREE EXAMINATION,NOVEMBER 2019
I Year I Semester
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. State the objectives of Financial Management.
3. What is cost of capital?
4. What are the components of Cost of Capital?
5. Define Capital Structure.
6. Explain the concept of Capital Rationing.
7. Write a note on Profitability Index Method.
8. What is stock dividend?
9. State the objectives of Dividend policy?
10. Write a note on MM model.
11. What are the types of Working Capital?
12. List out the sources of short term finance?

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

Answer any **FIVE** questions

13. Asin Ltd. 15,000 12% preference shares of Rs. 100, redeemable at 10% premium after 20 years. The floatation costs were 5%. Find out the cost of preference capital if shares are issued at (a) at par; (b) at a premium of 5%.
14. Explain the different approaches to capital structure.
15. How is the goal of wealth maximisation a better operative creation than profit maximisation?
16. An investment of Rs. 10,000 (having scrap value of Rs. 500) yields the following returns:

Year	1	2	3	4	5
CFAT	4,000	4,000	3,000	3,000	2,500

The cost of capital is 10%. Is the investment desirable? Discuss it according to NPV method assuming the PV factors for 1st, 2nd, 3rd, 4th and 5th year are 0.909, 0.826, 0.751, 0.683, and 0.620 respectively.

17. The earnings per share of Nadal Ltd are Rs. 15 and the rate of capitalisation applicable to the company is 12%. The productivity of earnings(r) is 12%. Compute the market value of the company's share if the payout is (i) 20%, (ii) 50% (iii) 70%. Which is the optimum payout?

18. The following data relates to Yanina Ltd.

    Earnings per share Rs. 14; capitalisation rate – 15%; rate of return – 20%. Determine the market price per share under Gordon's model of retention is (a) 40% (b) 60% (c) 20%

19. Determine the working capital requirements of a company from the information given below:

    Operating cycle components:

Raw materials	60 days
WIP	45 days
Finished goods	15 days
Debtors	30 days
Creditors	60 days

Annual turnover is Rs. 73,00,000, cost structure (as % of sale price) is materials 50%, labour 30% overheads 10% and profit 10%. Of the overheads, 30% constitute depreciation. Desired cash balance to be held at all times Rs. 3,00,000

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

Answer any **TWO** questions

20. The following information has been extracted from the Balance Sheet of Fashions Ltd. As on 31-12-94

	Rs. In Lakhs
Equity share capital	400
12% Debentures	400
18% Term Loan	1,200
	2,000

a) Determine the weighted average cost of capital of the company. It has been paying dividends at a consistent rate of 20% per annum

b) What difference will it make if the current price of the Rs. 100 share is Rs. 160

c) Determine the effect of income tax on the cost of capital under both premises (tax rate 40%)

21. Following are the details of three projects A, B and C

	A	B	C
Cost(Rs.)	50,000	70,000	70,000
Life(years)	10	12	14
Estimated surplus(Rs.)	5,000	10,000	7,000
Annual Profit(less tax) Rs.	5,000	6,000	5,500

Select best one using:

i. Payback period
ii. Surplus life over payback period
iii. Surplus cash flow, as decision criteria

22. Stewart Ltd. has 40,000 shares outstanding. The current market price of these shares is Rs. 15 each. The Board of directors of the company has recommended Rs. 2 per share as divided. The rate of capitalisation appropriate to the risk-class to which the company belongs is 20%.

(i.) Based on MM approach, calculate the market price of the share of the company when the recommended dividend is (a) distributed (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. 1,20,000 and the investment budget is Rs. 2,80,000 when (a) the above dividends are distributed (b) dividends are not declared.

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

(iv.) Is the MM approach realistic?

23. Strong Cement Co. Ltd. has an installed capacity of producing 1.25 lakh tonnes of cement per annum, its present capacity utilisation is 80%. The major raw material to manufacture cement is limestone which is obtained on cash basis from a company located near the plant. The company produces cement in 200 kg drum. From the following information given below, determine the net working capital requirements of the company for the current year. Cost structure per drum of cement (estimated) is as under:

	Rs.
Gypsum	25
Limestone	15
Coal	30
Packing materials	10
Direct labour	50
Factory overheads(including depreciation of Rs.10)	30
Administrative overheads	20

Selling overheads	25
Total cost	205
Profit margin	45
Selling price	250
Add sales tax(selling price)	25
Invoice price to customer	275

Additional information:

a) Desired holding period of raw materials:
Gypsum – 3 months; Limestone – 1 month; Coal – 2.5 months; Packing materials – 1.5 months

b) The product is in process for a period of half month
(Assume full units of materials, namely Gypsum, Limestone and Coal are required in the beginning. Other conversion costs are to be taken at 50%)

c) Finished goods are in stock for a period of 1 month before they are sold.

d) Debtors are extended credit for a period of 3 months.

e) Average time lag in payment of wages is approximately half month and of overheads one month.

f) Average time lag in payment of sales tax is one and half months.

g) The credit period extended by various suppliers are:
Gypsum – 2 months; Coal – 1 month; Packing materials – half month

h) Minimum desired cash balance is Rs. 25 lakh

You may state your assumption, if any.