B.Com(Hons) DEGREE EXAMINATION,NOVEMBER 2019
III Year V Semester
Financial Management

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

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

Answer **ALL** the questions

1. Define financial management.
2. Calculate the rate of interest if the period of doubling of an investment is 6 years?
3. What do you understand by ARR method?
4. A project costs Rs.5,00,000 and yields annually a profit of Rs.80,000 after depreciation at 12%p.a. but before tax at 50%. Calculate payback period.
5. What do you mean by optimum capital structure?
6. J Ltd., issued 12,000 10% Debentures of Rs.100 each at par. The tax rate is 50%. Calculate cost of debt before tax.
7. What is meant by leverage?
8. The following information relates to S Ltd.

EPS	Rs.10
IRR	18%
Cost of capital	20%
Payout ratio	40%

Compute the market price under the Walter's model.

9. What is credit policy?
10. Find out EOQ from the following particulars:

Annual usage: Rs.1,20,000

Cost of placing and receiving one order: Rs.60

Annual carrying cost = 10% of inventory value.

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

Answer any **FIVE** questions

11. The following data relates to Y Ltd.

    Earnings per share = Rs.14

    Capitalisation rate = 15%

    Rate of return = 20%

    Determine the market price per share under Gordon's model if retention is 60%

12. Explain the objectives of financial management.

13. Explain the different sources of working capital.

14. The cash flows from two mutually exclusive projects X and Y are:

Year	Project X Rs.	Project Y Rs.
0	(-)44,000	(-)54,000
1-7(annual)	12,000	14,500
Project life	7 years	7 years

    Calculate profitability index at 15% discount rate and suggest which project is profitable.

15. M holds 220 shares of Rs.100 each in A Ltd. A Ltd. has earned Rs.10 per share and distributed Rs.6 per share as dividend among shareholders and the balance is retained. The market price of the share is Rs.110. If personal tax rate applicable to shareholders is 40%, find out the cost of retained earnings.

16. P Ltd. has sales of Rs.12lakh. The variable cost is 50% of sales, while the fixed cost amounts to Rs.3,60,000. The amount of interest on long term debt is Rs.1,20,000. Calculate the combined leverage and illustrate its impact if sales increases by 10%.

17. Calculate optimum cash balance under Baumol model from the particulars given below:

Annual cash requirement	:	Rs.1,50,000
Fixed cost per transaction	:	Rs.15
Interest rate on marketable securities	:	18%

18. A firm has annual credit sales of Rs.15,00,000. It grants 2 months credit to its customers with no cash discount facility. It intends to offer a discount of "2/10 net 60". It is expected that this will reduce the average collection period to one month and 50% of the customers (in value) will take advantage of this benefit. The selling price is Rs.10 per unit, while average cost per unit comes to Rs.8.60.

You are required to advise the firm regarding this new scheme presuming that the required rate of return on investment is 25% and one month is of 30 days.

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

PART - A - Case Study - Compulsory Question

19. X Co's cost of capital is 10% and it is subject to 50% tax rate. The company is considering buying a new finishing machine. The machine will cost Rs. 4 lakh and will reduce material waste by an estimated amount of Rs.1,00,000 a year. The machine will last for 10 years and will have zero salvage value. Assume straight line method of depreciation on asset.

    (i) Compute the annual cash inflow (CFAT), present value, NPV and profitability index.

    (ii) Should the company purchase the new finishing machine?

PART - B

Answer any **ONE** questions

20. K Ltd. has a EBIT of Rs. 6,00,000. Presently the company is entirely financed by equity capital of Rs. 40,00,000 with equity capitalisation rate of 16%. It is contemplating to redeem a part of its capital by introducing debt financing. It has two options to raise debt to the tune of 30% or 50% of the total funds.

    It is expected that for debt financing up to 30% will cost 10% and equity capitalisation rate will rise to 17%. However, if the firm opts for 50% debt, it will cost 12% and equity capitalisation rate will be 20%.

    Compute the market value of the firm, market value of equity and overall cost of capital.

21. The following information relates to S Ltd.

Earnings of the company	Rs. 10,00,000
Dividend paid	Rs. 6,00,000
No. of shares outstanding	1,00,000
Price Earning Ratio	10
Rate of return on investment	15%

    Calculate the current dividend policy of the firm using Walter's model