M.Com(A&F) DEGREE EXAMINATION,APRIL 2020
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 financial management.
2. What do you mean by trade off?
3. What is cost of capital?
4. Explain decision tree analysis.
5. What is trade credit?
6. What is stock dividend?
7. What do you mean by over capitalisation?
8. What are the components of working capital?
9. Explain the term capital rationing.
10. What is retained earnings?
11. Give the meaning of “Core Current Assets”.
12. State the Formula to find financial leverage.

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

Answer any **FIVE** questions

13. What is the need for Investment decision?
14. What is the significance of working capital management?
15. State the assumptions of MM hypothesis.
16. A Company issues Rs.10,00,000, 13% debenture at a discount of 5%. The debenture are redeemable after 5 years at a premium of 5%. Calculate cost of debt before tax and after tax if tax rate is 50%
17. X Ltd expects the net operating income of Rs.1,20,000. It has Rs.6,00,000, 6% debenture. The overall capitalisation rate is 10%. Calculate the value of the firm and cost of equity according to the net operating income approach.

18. The following information is available from the Balance sheet of a company
Equity share capital - 20000 shares of Rs.10 each Rs.2,00,000
Reserves and surplus Rs.1,30,000
8% debenture Rs.1,70,000
The rate of tax for the company is 50%. Current level of equity dividend is 12%. Calculate the weighted average cost of capital using the above figures.

19. Two firms M and N are identical in all respect except the degree of leverage. Firm M does not use any debt in its financing(unlevered). Firm N has 8% debentures of Rs.6,00,000 (levered) . The firms have earnings before interest and taxes (EBIT) of Rs. 2,00,000 and the equity capitalisation rate is 12.5% . Assuming the corporate tax at 50%, calculate the value of the firms using MM approach

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

Answer any **TWO** questions

20. Compute the market price under Walter model.

A Ltd	B Ltd	C Ltd
r = 15%	r =10%	r =8%
k =10%	k =10%	k =10%
E = Rs.10	E =Rs.10	E=Rs.10

Calculate the value of an equity share of each of these companies when dividend payout ratio is a) 20% b) 50% c) 0% d) 100%

21. Razak Ltd has a capital structure consisting of Equity capital only. It has 50000 equity shares of Rs.10 each, now the company wants to raise a fund of Rs.1,25,000 for its various investment after considering the following three alternatives.

i. If it issues 12,500 equity shares of Rs.10 each.
ii. If it borrows a debt of Rs1,25,000 at the rate of 8% interest.
iii. If it issues 1250, 8% Preference shares at the rate of Rs.100 each.

Show the effect of EPS if the EBIT is Rs 1,56,250 and the tax rate is 50%.

22. The shares of Hedge company is selling at Rs.40 per share. The firm had paid Rs.2 per share dividend last year. The estimated growth of the company is approximately 5% per share

i. Determine the cost of equity
ii. Determine the estimated market price of equity if growth rate of the firm

a)Rises to 8% and b) falls to 3%

23. From the following information, you are required to estimate the net working capital

	Cost per unit
Raw materials	400
Direct Labour	150
Overheads scheduling (depreciation)	300
Total cost	850

Additional Information:

Selling price 1,000 per unit
Output 52,000 units
Raw materials in stock average 4 weeks
Work-in-progress (assumed 50% completion stage with full material consumption) average 2 weeks
Finished goods in stock average 4 weeks
Credit allowed by supplier's average 4 weeks
Credit allowed to debtors average 8 weeks
Cash at bank expected to be Rs.50,000

Assume that production is sustained at an even space during the 52 weeks of the year. All sales are on credit basis.