B.Com(A&F) DEGREE EXAMINATION,NOVEMBER 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. What do you mean by finance?
2. What are the objectives of Financial Management?
3. A firm sells its only product at Rs.12 per unit. Its variable cost is Rs.8 per unit. Present sales are 1,000 units. Calculate the operating leverage when fixed cost is Rs.1,000.
4. Anderson Ltd is considering plan to finance project costing Rs.50 lakhs, Equity share capital (Rs.100 per share) – Rs. 20 lakhs, 12% Debentures – Rs.30 lakhs, Sales for the year is projected at Rs.120 lakhs.EBIT is expected to be 15% of sales. Corporate tax is 35%. Calculate the EPS.
5. Define cost of capital.
6. S Ltd issued 20,000 8% debentures of Rs.100 each on 1st April 2015. The cost of issue was Rs.50,000. The company's tax rate is 35%. Determine the cost of debentures (before as well as after tax)If they issued at premium of 10%.
7. Maran holds 220 shares of Rs.100 each in A Ltd. A Ltd., has earned Rs.10 per share and distributed Rs.6 per shares as dividend among shareholders and the balance is retained. The market price of share is Rs.110, If personal tax rate applicable to shareholders is 40%, find out the cost of retained earnings.
8. What do you mean by dividend policy?
9. Write the formula for Raw materials held in stock while preparing operating cycle.
10. From the following calculate net working capital required: Total current assets:Rs.58500, Current Liabilites: Rs.7,500.
11. Explain the term permanent working capital.
12. What is operating cycle?

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

Answer any **FIVE** questions

13. Explain the role of Financial Manager.

14. Two firms R and S are identical except in the method of financing. Firm R has no debt, while firm S has Rs.3,00,000 8% debentures in financing. Both the firms have a net operating income (EBIT) of Rs.1,20,000 and equity capitalisation rate is 12%. The corporate tax is 35%. Calculate the value of the firm using MM approach.
15. JJ Ltd is expecting an annual EBIT of Rs.2,00,000. The company has Rs.2,00,000 in 10% Debentures. The equity capitalisation rate is 12%. You are required to ascertain the total value of the firm and overall cost of capital.
16. A firm issues debentures of Rs.1,00,000 and realises Rs.98,000 after allowing 2% commission to brokers. Debentures carry interest rate of 10%. The debentures are due for maturity at the end of 10th year at par. Calculate cost of debt.
17. The cost of capital and the rate of return on investment of R Ltd are 10% and 18% respectively. The company has 5 lakh equity share of Rs.10 each outstanding and earnings per share are Rs.20. Compute the market price per share and value of firm using Walter model when retention is 40%.
18. What are the factors determining working capital?
19. From the following information relating to Pathanjali Ltd. Calculate operating cycle and No. of operating cycle in a year assuming a 360 days in a year.

    Stock Holding: Raw materials: 2 months; WIP: 15 days; Finished goods: 1 month
    Average Debt collection period: 2 months, Average payment period:45 days.

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

Answer any **TWO** questions

20. The value of two firms K and L in accordance with the traditional theory are given below:

	Firm K(Rs.)	Firm L(Rs.)
EBIT	3,00,000	3,00,000
Interest	40,000	---
Earning for equity share holder	2,60,000	3,00,000
Equity capitalisation rate (K_e)	13%	12%
Market value of equity	20,00,000	25,00,000
Market value of debt	8,00,000	---
Total value of firm	28,00,000	25,00,000
WACC (K_o)	10.71%	12%

Compute the value of firm K and L and equity capitalisation rate as per MM approach. Assume that corporate tax does not exist, the equilibrium value of Ko is 12.5%

21. A company was recently formed to manufacture a new product. It has the following capital structure:

	Rs.
9% Debentures	10,00,000
7% Preference Shares	4,00,000
Equity shares (48000 shares)	16,00,000
Retained earnings	10,00,000
Total	40,00,000

The Market price of equity share is Rs.80, A dividend of Rs.8 per share is proposed. The company has marginal tax rate of 50% and shareholder's individual tax rate is 25%. Compute after tax weighted average cost of capital of the company.

22. The following information is available in respect of Gill Ltd

Earning per share: Rs.12
Cost of capital :10%
Find out the market price of the share applying Walter model with different rates of return of 8%,10% and 15% for different payout ratio of 0%,40% and 100%.

23. Cost sheet of a company provides the following particulars:

Elements of cost: Raw materials:40% Labour:10% Overheads:30%

The following particulars are also available:

(i) Raw materials remain in the stock for 6 weeks
(ii) Processing time : 4 weeks
(iii) Finished goods are in stock for 5 weeks
(iv) Period of credit allowed to debtors: 10 weeks, by creditors:4 weeks
(v) Lag in payment of wages: 2 weeks
(vi) Selling price : Rs.50 per unit
(vii) Production units : 13,000 p.a

Prepare an Estimate of Working Capital.