

B.Com(ISM) DEGREE EXAMINATION, APRIL 2020
II Year IV Semester
Financial Management

Time : 3 Hours

Max.marks :60

Section A ($10 \times 1 = 10$) Marks

Answer any **TEN** questions

1. Define financial management.
2. Write short note on Leverage.
3. What is marginal cost?
4. What do you mean by capital rationing?
5. Ganesh Ltd. Issued 2,000 9% debentures of Rs. 100 each at a premium of 10%. The issue expenses are 3%. The tax rate is 40%. Calculate the cost of debt after tax.
6. Calculate the cost of equity capital from the following particulars of X Ltd. The current market price of equity share of the company is Rs.80. The current dividend per share is Rs. 6.40. Dividend are expected to grow at 8%.
7. Write short note on IRR..
8. Brief payback period.
9. A project has initial investment of Rs.2,00,000. It will produce cash flows after tax of Rs. 50,000 per annum for six years. Compute the payback period for the project.
10. Enumerate gross working capital.
11. From the following calculate the Operating cycle.
Stock holding: Raw material – 1 month,
work- in – progress - 15 days,
finished goods - 1 month,
debtors collection period - 2 months and
time lag in payment of bills – 45 days.
12. You are required to calculate the duration of finished goods stage.
Average finished goods inventory Rs.(in millions) – 180.
Average cost of goods sold per day Rs.(in millions) – 18.

Section B ($5 \times 4 = 20$) MarksAnswer any **FIVE** questions

13. Explain the objectives of financial management.
14. Enumerate the point of indifference.
15. Describe the Modigliani and Miller approach to capital structure.
16. A firm requires total capital funds of Rs. 50lacs and has two options. All equity and Half equity and half 15% debt. The equity shares can be issued currently at Rs 100 per share. The expected EBIT of the company is Rs. 5,00,000 with tax rate of 40%. Find out the EPS under both the financial mix.
17. Sakthi Ltd. Issued 20,000 8% debentures of Rs.100 each on 1st April 2009. The cost of issued issue was Rs.50,000. The company's tax rate is 35%. Determine the cost of debentures after tax if they were issued
(a) at par and (b) At a discount of 10%.
18. Compute ARR from the following data:
Cost of asset : Rs.4,00,000.
Useful life: 5 years
Cash flow after tax (CFAT): Rs.1,72,000p.a.
19. Give details of operating cycle.

Section C ($2 \times 15 = 30$) MarksAnswer any **TWO** questions

20. Explain the role of financial manager.
21. Ravi Ltd., has the following Capital Structure.

Ordinary shares:	Rs. in lakhs
10 Lakh Nos @ Rs. 10 each	100
Reserves and surplus	40
10% Debentures each of face value Rs. 100	60

	200

The Co., needs Rs. 50 lakh to execute a new project which will raise its operating profit from the current level of Rs. 40 lakh to Rs. 55 lakh.

It is considering the following options.

- (i) Issue equity shares at a premium of Rs. 15 each for the entire amount.
- (ii) Issue 12% Debentures for Rs. 50 lakh required additionally.
- (iii) Issue equity shares for Rs. 25 lakh at a premium of Rs. 20

The Co., tax rate is 40%. Advice the Co., to choose best option.

22. Bhagat Co's cost of capital is 10% and it is subject to 50% tax rate. The company is considered buying a finishing machine. The machine will cost Rs.4lakhs 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 a zero salvage value. Assume straight line method of depreciation on asset.

Compute an annual cash flow, present value, NPV and profitability index.

(Annuity factor for 10 years at 10% = 6.1446.)

23. From the following information relating to Perara Ltd., Calculate (a) Operating cycle (b) Number of operating cycle a year assuming 360 days a year. (c) Average working capital required.

Annual cash operating expenses = Rs.150 lakhs.

Stock holding:

Raw materials – 2 months.

W.I.P. – 15 days.

Finished goods – 1 month.

Average debt collection period – 2 months.

Average payment period - 45 days.