B.Com(Hons) DEGREE EXAMINATION,APRIL 2020
III Year V Semester
Financial Management

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

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

Answer **ALL** the questions

1. What is financial management?
2. Viji expects a perpetual sum of Rs. 9,000 annually for an idefinite period. Assuming a discount rate of 18%, calculate the present value of perpetuity.
3. What is decision tree analysis?
4. A project has an initial investment of Rs. 3,00,000. It will produce cash flows after tax of Rs. 60,000 per annum for six years. Compute the payback period for the project.
5. What is meant by optimum capital structure?
6. Calculate operating leverage:

   No. of units produced and sold : 30,000, Selling price per unit : Rs.20
   Variable cost per unit : Rs. 10, Fixed cost per unit at current level of sales is Rs. 5.
7. Suji ltd., issued 12,000 10% Debentures of Rs. 100 each a par. The tax rate is 50%. Calculate cost of debt after tax.
8. What is meant by dividend?
9. Write any two objective s of cash management.
10. Calculate EOQ from the following information:

    Annual usage – Rs. 1,20,000, Annual carrying cost = 10% of inventory value.
    Cost of placing and receiving one order Rs.60

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

Answer any **FIVE** questions

11. Discuss the present value techniques.
12. Determine the average ate of return rom the following data of a machine.

	Machine(Rs.)
Cost	56,125
Annual estimated incomes after depreciation and income tax:	
I year	3,375
II year	5,375
IIIyear	7,375
IV year	9.375
V year	11.375
Estimated life in years	5
Estimated salvage value (Rs.)	3,000
Average income tax rate	55%
Additional working capital (Rs.)	5,000

13. Babu Ltd. has issued 40,000 shares of Rs.10 each fully paid. The company has earned a profit of Rs.40,000 after tax. The market price of these shares is Rs. 16 per share. The company has paid a dividend of Re. 0.80 per share. Calculate the cost of equity on the basis of (i) Dividend yield method, and
ii) Earnings price method.

14. Calculate financial leverage for the following firm:

Output (Units)	60,000
Fixed cost (Rs.)	7,000
Variable cost per unit (Rs.)	0.20
Interest on borrowed capital (Rs)	4,000
Selling price per unit (Rs.)	0.60

15. Kavin Ltd has 50,000 equity shares of 10 each outstanding on January 1. The shares are currently quoted at Rs. 20 in the market. The company intends to pay a dividend of Rs. 2 per share for the current year. Its capitalisation rate is 15%. Using MM model and assuming no taxes, ascertain the price of the company share.

i) When dividends is not declared
ii) When dividend is declared

16. 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:

Raw materials remain in stock for 6 weeks
Processing time: 4 weeks
Finished goods are in stock for 5 weeks

Period of credit allowed to debtors: 10 weeks
Lag in payment of wages: 2 weeks
Period of credit allowed by creditors: 4 weeks
Selling price: Rs.50 per unit
Production in units: 13000 p.a.

Prepare an estimate of working capital

17. The following data has been extracted from the books of a company for the last two years:

	2008	2009
Net sales	4,00,000	7,50,000
receivables	1,00,000	1,50,000

i) Calculate receivables turnover for the given two years.
ii) ascertain average size of investment in receivables for an improved receivable turnover of 6 times on budgeted sales volume of Rs. 9,60,000 for the year 2010.

18. Explain the various types of Dividend policy.

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

PART - A - Case Study - Compulsory Question

19. A choice to be made between two projects which requires an equal investment of Rs. 50,000 and are expected to generate net cash flows as under:

	Project 1(Rs.)	Project 2(Rs.)
End of I year	25,000	10,000
End of II year	15,000	12,000
End of III year	10,000	18,000
End of IV year	Nil	25,000
End of V year	12,000	8,000
End of VI year	6,000	4,000

The cost of the capital is 10%. Present value is year:

	1	2	3	4	5	6
P.V factor @ 10%	0.909	0.826	0.751	0.683	0.621	0.564

Evaluate project prepared under:

a) Pay back period.

b) Discounted cash flow Method.

PART - B

Answer any **ONE** questions

20. Company A and Company B are in the same risk class and identical. In all respects except that company A uses debt. While company B does not. Levered company has Rs. 20 lakh debentures. Carrying 12% rate of interest. Both Companies earn 20% before interest and taxes on their total assets of Rs. 50 lakh. Assume perfect capital markets, tax rate of 50% and capitalisation rate of 10% for an equity company the value of both companies under

    (a) Net Income approach and (b) NOI approach

21. The cost of capital and the rate of return on investment of Rani Lt., are 10% and 18% respectively. The company has 5 lakh equity shares of Rs. 10 each outstanding and earnings per share are Rs. 20. Compute the market price per share and value of firm in the following situations. Use Walter Model and Comment on the results.

    i) No retention, ii) 40% retention, iii) 80% retention.