

B.Com(Hons) DEGREE EXAMINATION, EVEN SEMESTER 2021
III Year V Semester
Financial Management

Max.marks :25

Answer any **FIVE** questions ($5 \times 5 = 25$) Marks

1. What is capitalization? Illustrate a business situation for (i) over capitalization and (ii) under capitalization.
2. In wealth maximization, what do you mean by 'wealth' and how can it be maximized? Give examples.
3. What is capital rationing? Illustrate the capital rationing with the different investment options.
4. ABC Ltd is considering investing in a project that costs Rs.5,00,000. The estimated salvage value is zero, tax rate is 35%. The Company uses straight line depreciation for tax purposes and the proposed project has profit before charging depreciation as follows:

Year	Profit before charging depreciation
1	1,50,000
2	1,75,000
3	2,00,000
4	2,50,000
5	3,25,000

Company's cost of capital is 10%. Determine Pay Back Period.

5. Concisely present the Walter's model of dividend theory.
6. Z Ltd. has a capital structure comprising equity capital only. It has 1,00,000 equity shares of Rs.10 each. Now the company wants to raise a fund of Rs.2,50,000 for its various investment purposes after considering the following three alternative methods of financing:
 - a. Issuing 25,000 equity shares of Rs.10 each.
 - b. Borrowing a debt of Rs.2,50,000 at 10% interest; and
 - c. Issuing 2,500 10% preference shares of Rs.100 each.
 Show the effect of EPS under various methods of financing if EBIT (after additional investment) are Rs.3,20,000 and rate of taxation is @ 50%.
7. Explain the factors determining working capital requirements for a trading concern.