SHRIMATHI DEVKUNVAR NANALAL BHATT VAISHNAV COLLEGE FOR WOMEN (AUTONOMOUS)

(Affiliated to the University of Madras and Re-accredited with 'A+' Grade by NAAC)

Chromepet, Chennai — 600 044.

M.Com.(A&F) END SEMESTER EXAMINATIONS APRIL - 2022

SEMESTER - II

20PAFCT2005 - Financial Management

Total Duration : 3 Hrs. **Total Marks : 60**

Section A

Answer any **SIX** questions $(6 \times 5 = 30$ Marks)

1. Define financial management. Explain the objectives of financial management.
2. S Ltd., issued 10,000 10% Debentures at Rs.100 each. The debentures are redeemable after 10 years at a premium of 5%. If the tax rate is 50%., calculate the cost of debt before tax and after tax.
3. What do you mean by capital rationing? How the firm can select projects under capital ratio?
4. Explain the factors that influence the dividend policy of a firm.
5. D Ltd. Has an EBIT of Rs. 4,50,000. The cost of debt is 10% and the outstanding debt is Rs. 12,00,000. The overall capitalisation rate (ko) is 15%. Calculate the total value of the firm and equity capitalisation rate under NOI approach.
6. The following figures relating to two companies:

Particulars	**X Ltd**	**Y Ltd**
Sales	Rs.1,000 Lakh	Rs.2800 Lakh
P/V Ratio	60%	50%
Fixed cost	Rs.300 Lakh	Rs.800 Lakh
Interest	Rs.100 Lakh	Rs.200 Lakh

Comment on the relative risk position of two companies.

7. Explain the various investment appraisal methods.
8. Explain the assumptions and implications of Walters Dividend model.

Section B

Part A

Answer any **TWO** questions $(2 \times 10 = 20$ Marks)

9. Discuss briefly the relationship between the financial management and other functional areas.

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10. Company A and Company B are in the same risk class and identical. In all respects except the company uses the 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. Compute the value of both companies under (a) Net Income approach (NOI) and (b) Net Operating Income (NOI) approach.

11. The following information has been extracted from the Balance sheet of Fashion Ltd., as on 31.12.94:

	Rs. in Lakhs
Equity share capital	400
12% Debentures	400
18% Term loan	1,200
	2,000

    (a) Determine the weighted average cost of capital of the company. It had been paying dividends at a consistent rate of 20% p.a.
    (b) What difference will it make if the current market price of the Rs.100 share is Rs.160.
    (c) Determine the effect of income tax on the cost of capital under both premises (tax rate 40%).

12. X Ltd, has a machine having an additional life of 5 years, which costs Rs.1,00,000 and which has a book value of Rs.40,000. A new machine costing Rs.2,00,000 is available. Though its capacity is the same as that of the old machine. It will mean a saving in variable cost to the extent of Rs.70,000 p.a. The life of the machine will be 5 years at the end of which it will have a scrap value of Rs.20,000. The rate of income tax is 60% and X Ltd, does not make an investment, if it yields less than 12%. The old machine, if sold will fetch Rs.10,000. Advise X Ltd., whether the old machine will be replaced or not.

Part B

Compulsory question $(1 \times 10 = 10$ Marks)

13. S Ltd., has 40,000 shares outstanding. The current market price of the shares is Rs.15 each. The board of Directors of the company has recommended Rs.2 per share as dividend. The rate of capitalisation appropriate to the risk class to which the company belongs is 20%.

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(a) Based on M M approach, calculate the market price of the share of the company when the recommended dividend is (i) distributed and (ii) not declared.

(b) How many new shares to be issued by the company at the end of the accounting year on the assumption that the net income for the year is Rs.1,20,000 and the investment budget is Rs.2,80,000 when (i) the above dividends are distributed and (ii) dividends are not declared.

(c) Show the market value of the shares at the end of the accounting yearwill remain the same whether the dividends are distributed or not declared.

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