

**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.

B.Com.(ISM) END SEMESTER EXAMINATION APRIL/NOV - 2021

SEMESTER - IV

18UBICT4008 - Financial Management

Total Duration : 3 Hrs	Total Marks : 75
MCQ : 30 Mins	MCQ : 15
Descriptive : 2 Hrs.30 Mins	Descriptive : 60

Section B

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

1. Define Financial Management and explain its objectives.
2. What is meant by Capital Structure? Mention its importance.
3. Explain Net Operating Income Approach.
4. Bhaskar Manufacturing Ltd, has Equity share capital of Rs.5,00,000 (face value Rs.100). To meet the requirements of an expansion programme, the company wishes to raise Rs.3,00,000 and is having two alternative sources to raise funds:
Plan A : To have full money from the issue of Equity shares at par.
Plan B : Full money from borrowings @ 10% per annum.
The company is expecting earnings of Rs.1,50,000. The corporate tax is 30%.
Select a suitable plan out of the above two plans to raise the required funds.
5. Assuming that the firm pays tax at 30%, compute the after-tax cost of capital in the following cases:
(i) A 14.5% Preference share sold at par.
(ii) A Perpetual bond sold at par, coupon rate being 11.25%.
6. Following mutually exclusive projects are being considered by ABC Ltd.

Particulars	Project A	Project B
PV of cash inflows	20,000	8,000
Initial cash outlay	15,000	5,000
Net Present Value	5,000	3,000
Profitability Index	1.33	1.6

Which Project should be preferred and why?

7. Explain the need for working capital.

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8. Using the following data, calculate the working capital cycle for XYZ Ltd:

Particulars	Rs.in '000
Sales	3,000
Cost of production	2,100
Purchases	600
Average Raw materials stock	80
Average Work-in Progress	85
Average Finished goods stock	180
Average Creditors	90
Average Debtors	350

Section C

Answer any **THREE** questions ($3 \times 10 = 30$ Marks)

9. Who is a Finance Manager? Explain in detail the role of finance manager.
10. The following data pertain to Forge Limited:
 Existing capital structure : 10 Lakhs Equity shares of Rs.10 each.
 Tax Rate : 30%
 Forge Ltd., plans to raise additional capital of Rs.100 lakhs for financing an expansion project. It is evaluating two alternative financing plans:
 (i) Issue of Rs.10,00,000 equity shares of Rs.10 each and
 (ii) Issue of Rs.100 lakhs debentures carrying 14% interest.
 You are required to compute indifference point.
11. The shares of a company are currently selling at Rs.53 per share in the stock market. The company paid dividend at the rate of Rs.3 per share last year. The estimated growth rate of dividend is 6%. The required rate of return is 12%. Determine the estimated market price of the equity share if the growth rate of dividend turns out to be as :
 (i) estimated, (ii) rises to 8%, (iii) falls to 4%.
12. Machine A costs Rs.1,00,000 payable immediately. Machine B costs Rs.1,20,000 half payable immediately and half payable in one year's time. The cash receipts expected are as follows:

Year (at end)	Machine A	Machine B
1	20,000	-
2	60,000	60,000
3	40,000	60,000
4	30,000	80,000
5	20,000	-

At 7% opportunity cost, which machine should be selected on the basis of NPV?

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13. Following information is collected from the record of Sundar Manufacturing Ltd.:

Cost of goods sold	8,00,000
Cost of production	5,00,000
Raw material consumed during the year	6,00,000
Average finished goods	40,000
Average work-in-progress	30,000
Average raw material	50,000
Debtors collection period	45 days
Creditors payment period	30 days

Find out the Operating Cycle. How many operating cycle does the firm have in a year (360 days).