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. END SEMESTER EXAMINATIONS APRIL-2023
SEMESTER - VI
20UCOET6002 - Financial Management

Total Duration : 2 Hrs. 30 Mins. Total Marks : 60

Section B

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

1. Explain the financial decisions that involve risk-return trade off.
2. A firm has sales of Rs.20,00,000; variable cost of Rs.14,00,000; fixed cost of Rs.4,00,000 and debentures of Rs.10,00,000 in its capital structure obtained at 10%. Compute its financial leverage, operating leverage and combined leverage.
3. The market price of an equity share of Mill Ltd. is Rs.120. The expected equity dividend is Rs.2.40 per share. The shareholders anticipate a growth of 10% in dividends. You are required to compute cost of equity capital.
4. A project costs Rs.50,000 and has a scrap value of Rs.10,000. Its stream of income before depreciation and taxes during the first five years is Rs.10,000, Rs.12,000, Rs.14,000, Rs.16,000 and Rs.20,000. Assumes 50% tax rate and depreciation on straight line basis. Show the result of accounting rate of return.
5. State the determinants of working capital requirements.
6. Prepare an estimate of working capital requirements from the following information of a trading concern.
   i. Projected annual sales 1,00,000 units.
   ii. Selling price Rs.8 per unit.
   iii. Percentage of net profit on sales 25%.
   iv. Average credit period allowed to customers 8 weeks.
   v. Average credit period allowed by suppliers 4 weeks.
   vi. Average stock holding in terms of sales requirement 12 weeks.
   vii. Allow 10% for contingencies.
7. Illustrate the different types of dividend.
8. The cost of capital and the rate of return on investment of Mukesh Ltd. are 12% and 20% respectively. The company has Rs.2,00,000 lakhs equity shares of Rs.10 each outstanding and earning per share are Rs.25. Compute the market price per share and value of firm in the following situations. Use Walter Model and recommend on the results i) 80% retention ii) 60% retention.

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Section C

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

9. Explain the role of finance manager.

10. Determine the Earning per share (EPS) of a company which has operating profit (EBIT) of Rs.1,60,000. Its capital structure consists of the following securities.
    10% debentures Rs.7,00,000
    13% preference shares Rs.1,50,000
    Equity shares of Rs.100 each Rs.5,00,000
    The company is in the 55% tax rate.
    a. Compute the company's EPS.
    b. Compute the percentage change in EPS associated with 30% increase and 30% decrease in EBIT.
    c. Compute the degree of financial leverage.

11. A choice is to be made between two competing proposals which required and equal investment of Rs.50,000 and are expected to generate net cash flows as under:

	Project I (Rs.)	**Project II (Rs.)**
End of year 1	25,000	10,000
End of year 2	15,000	12,000
End of year 3	10,000	18,000
End of year 4	Nil	25,000
End of year 5	12,000	8,000
End of year 6	6,000	4,000

The cost of capital of the company is 10 percent. The following are the present value factors at 10% per annum.

Years	**Present value factors at 10% p.a.**	**Years**	**Present value factors at 10% p.a.**
1	0.909	4	0.683
2	0.826	5	0.621
3	0.751	6	0.564

Which project should be chosen and why?
Justify the project proposals under:
(a) Payback period
(b) NPV at 10% discount rate.

12. The following information relates to ABC Ltd.

Earnings per share	Rs.30
Productivity of retained earnings (r)	15%
Capitalization rate (k)	15%

What is the market price per share according to the Walter model if the payout is?
a) 20% b) 40% c) 60%. Solve the problem and give your comments.

13. ABC Ltd. sells goods on a gross profit 25%. Depreciation is taken into account as part of cost of production. The following are the annual figure given to you:

	Rs.
Sales (two months credit)	36,00,000
Materials consumed (one month credit)	9,00,000
Wages paid (one month lag in payment)	7,20,000
Cash manufacturing expenses (One month lag in payment)	9,60,000
Administration expenses (one month lag in payment)	2,40,000
Selling expenses (paid quarterly in advance)	1,20,000
Income tax payable in 4 instalments of which one lies in the year	3,20,000

The company keeps one month's stock each of raw materials and finished goods. It also keeps Rs.2,00,000 in cash. You are required to appraise the working capital requirement of the company on cash basis assuming 15% safety margin.

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