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 NOVEMBER - 2022
SEMESTER - II
20PAFCT2005 - Financial Management

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

Section A

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

1. Explain the objectives of financial management.

2. Discuss the discounting techniques of adjusting for time value of money.

3. Discuss the methods of evaluating capital expenditure decisions.

4. Kumar Ltd., has an EBIT of Rs.2,50,000. The cost of debt is 8% and the outstanding debt is Rs.10,00,000. The overall capitalization rate (K_0) is 12.5%. calculate the total value of the firm and equity capitalization rate under NOI Approach.

5. A limited company has the following capital structure:

Equity share capital (2,00,000 shares)	Rs.40,00,000.
6% Preference shares	Rs.10,00,000.
8% Debentures	Rs.30,00,000.

The market price of the company's equity shares is Rs.20. It is expected that company will pay a current dividend of Rs.2 per share which grow at 7% forever. The tax rate may be presumed at 50 percent. You are required to compute a weighted average cost of capital.

6. Following projects requires a cash outlay of Rs.20,000. You are required to suggest which project should be accepted if the standard pay back period is 5 years.

Year	Cash in flow	
	Project X Rs.	Project Y Rs.
1	2,500	4,000
2	2,500	3,000
3	2,500	2,000
4	2,500	1,000
5	2,500	-

7. Normal Ltd., gives you the following information:
EPS = Rs.12
Cost of Capital (K) = 10%.
Return on investment (r) = 10%.
Find out the market price per share using Gordon's model. if the payout is 25% and 50 %.

Contd...

8. Find the financial leverage from the following data:

Net worth	Rs.25,00,000
Debt / Equity	3/1
Interest rate	12%
Operating profit	Rs.20,00,000

Section B

Part A

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

9. Discuss the various functions of a finance manager.
10. What are the factors to be kept in mind while determining the capital structure of a firm?
11. B Ltd., has a share capital of Rs.1,00,000 divided into shares of Rs.10 each. It has a major expansion programme requiring an investment of another Rs.50,000. The management in considering the following alternatives for raising this amount.
    a) Issue of 5, 000 equity shares of Rs.10 each.
    b) Issue of 5,000, 12% preference shares of Rs.10 each.
    c) Issue of 10% debentures of Rs.50,000.

    The company present earnings before interest and tax are Rs.4,000 per annum. You are required to calculate the effect of each of the above modes of financing on the earning per share presuming EBIT increases by 10%.

12. Following are the details regarding two companies:

A Ltd	B Ltd
r= 15%	r = 10 %
Ke = 10%	Ke=10%
E = Rs.10	E = Rs.10

Calculate the value of equity shares of each of these companies under Walters approach when dividend pay – out ratio is (a) 0% (b) 50% and (c) 100%.

Part B

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

13. 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:

Particulars	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 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

You are required to evaluate the project according to each of the following methods:
(a) Payback period.
(b) NPV method taking cost of capital as 10%

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