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 - 2023
SEMESTER - II
20PAFCT2005 - Financial Management

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

Section B

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

1. What is financial management? Explain the objectives of financial management.
2. Raj Ltd. took a bank loan of Rs.20,00,000 at the rate of 12% interest. The amount is repayable after 3 years. Compute the total amount repayable, if the interest is compounded:
   a. Annually b. Half yearly c. Quarterly
3. Compute cost of debt, assuming corporate tax rate at 35%
   a. Raj Ltd. issued 8% debentures of Rs.10,00,000
   b. Mohan Ltd. issued 9% debentures of Rs.10,00,000 at a premium of 10%
   c. Ram Ltd. issued 10% debentures of Rs.10,00,000 at a discount of 10%
   d. Vijay Ltd. issued 11% debentures of Rs.10,00,000 at 10% premium, the underwriting commission and other issue expenses together amounted 2% of the face value.
4. What is investment appraisal? Explain the investment appraisal methods.
5. Siva company Ltd has an all equity capital structure consisting of 20,000 equity shares of Rs.100 each. The management plans to raise Rs.30 lakhs to finance a programme of expansion. Three alternative methods of financing are under consideration.
   i. Issue of 30,000 new shares of Rs.100 each
   ii. Issue of 30,000 8% debentures of Rs.100 each
   iii. Issue of 30,000 8% preference shares of Rs.100 each

   The company's expected earning before interest and taxes (EBIT) is Rs.10 Lakhs. Determine the earning per share in each alternative assuming a corporate tax rate of 50%. Which alternatives is best and Why?

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6. Mr.John holds shares in Varun Ltd. He estimates the possible return and their probability as under. Calculate the expected return and the standard deviation of expected return

Possible return (%)	**Probability**
-20	0.1
-10	0.1
20	0.5
30	0.3

7. The following information relates to Rose Ltd.
   Earning per share Rs.10
   Cost of capital 10%
   Rate of return 15%
   Determine the market price per share under the Gordon model, if retention is:
   a. 60% b. 40% c. 10%

8. The following information relates to Muthu Ltd.
   Earning per share = Rs.10
   Return on investment = 12%
   Cost of capital = 12%
   Payout ratio =40%
   Determine the market price per share using Walter's approach.

Section C

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

9. Explain the functions of financial management.

10. The following information relates to RM Ltd

Year	**Dividend** (Rs.)	**Average Market Price** (Rs.)
2001	2	40
2002	2	30
2003	2	40
2004	3	69
2005	3.5	100
2006	4	121

Calculate the annual rates of return on the shares for the last five years.

11. Mathan Ltd. has a share capital of Rs.1,00,000 dividend into shares of Rs.10 each. The management is considering the following alternatives for financing a capital expenditure of Rs.50,000.
    a. Issue of 10% debentures.

b. Issue of 5,000, 12% preference shares of Rs.10 each.
c. Issues of 5,000 shares of Rs.10 each
The earning before interest and taxes (EBIT) is Rs.30,000 p.a
Calculate the effect of each of the alternatives on the earning per share, assuming
1. EBIT continues to be the same even after the capital expenditure.
2. EBIT increase by Rs.15,000
3. Tax liability of 40%

12. What is capital rationing? What are the types of capital rationing?

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

13. Kings Ltd. earns a profit of Rs.5 per share. The rate of capitalisation is 12% and the productivity of retained earnings is 10%. Using Gordon's model determine the market price per share if the payout is:
a. 20% b. 40% c. 60%

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