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.(CS) - END SEMESTER EXAMINATIONS APRIL - 2023
SEMESTER - IV

21PMCET4003 - Corporate 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 importance of Financial management.
2. Explain the availability of sources of company finance.
3. X Ltd. is expecting an annual EBIT of ₹1 lakh. The company has ₹4.00 lakhs in 10% debentures. The cost of equity capital or capitalisation rate is 12.5%. You are required to calculate the total value of the firm. Also state the overall cost of capital.
4. A co., issues 10% irredeemable debentures of ₹1,00,000. The company is in the 55% tax bracket. Calculate the cost of debt (before as well as after tax) if the debentures are issued @ a)par b) 10% discount c) 10% premium.
5. A company has a choice of the following three financial plans. You are required to calculate the financial leverage in each case.

	X (Rs.)	**Y** (Rs.)	**Z** (Rs.)
Equity capital	2,000	1,000	3,000
Debt	2,000	3,000	1,000
Operating profit (EBIT)	400	400	400

Interest @ 10% on debt in all cases.

6. Aditya Ltd. issued 60,000 15% irredeemable preference shares of Rs.100 each. The issue expenses were Rs.60,000. Determine the cost of preference capital if shares are issued at par.
7. From the following calculate a) Safety stock b) Re-order level & c) Maximum level in respect of material 'A'.

Economic Order Quantity	500 units
Lead Time	3 weeks
Weekly Usage	50 units
Weeks of safety stock desired by the firm	2

Contd...

8. Anu Ltd. expects its cost of goods sold for 2000-2001 to be Rs.600 lakhs. The expected operating cycle is 90 days. It wants to keep a minimum cash balance of Rs.1 lakh. What is the expected working capital requirement? Assume a year consists of 360 days.

Section C

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

9. Describe the changing scenario of financial management in India.
10. The cost of capital and the rate of return on investment of Chandran Ltd. are 10% and 18% respectively. The company has 5 lakh equity shares of Rs.10 each out-standing and earnings per share are Rs.20. Compute the market price per share and value of firm in the following situations. Use Walter Model and comment on the results.
    a. No retention
    b. 40% retention.
11. Distinguish between Capital structure and financial structure.
12. From the following capital structure of a company, calculate the overall cost of capital, using (a) book value weights and (b) market value weights.

Source	**Book value (Rs.)**	**Market value (Rs.)**
Equity share capital (Rs.10 shares)	45,000	90,000
Retained earnings	15,000	
Preference share capital	10,000	10,000
debentures	30,000	30,000

The after-tax cost of different sources of finance is as follows:
Equity share capital : 14% : Retained Earnings : 13%; Preference share capital : 10%; Debentures : 5%

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

13. From the following information, extracted from the books of a manufacturing company, compute the operating cycle in days and the amount of working capital required:

Period covered	365 days
Average period of credit allowed by suppliers	16 days

	(Rs. In '000)
Average total of debtors outstanding	480
Raw material consumption	4,400
Total production cost	10,000
Total cost of sales	10,500
Sales for the year	16,000

Value of average stock maintained:

Raw material	320
Work-in-progress	350
Finished goods	260

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