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.(A&F) END SEMESTER EXAMINATIONS NOVEMBER-2022
SEMESTER - V
20UAFCT5016 - 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 sources of Financial Information.

2. XYZ Ltd., issues 2,000 10% preference shares of Rs.100 each at Rs.95 each. The company proposes to redeem the preference shares at the end of 10^{th} year from the date of issue. Compute the cost of preference share?

3. ABC Ltd., belongs to a risk class for which the appropriate capitalisation rate is 10%. It currently has outstanding 5,000 shares selling at Rs.100 each. The firm is contemplating the declaration of dividend of Rs.6 per share at the end of the current financial year. The company expects to have a net income of Rs.50,000 and has a proposal for making new investments of Rs.1,00,000. Show that under the MM hypothesis, the payment of dividend does not effect the value of the firm.

4. The following information has been submitted by a borrower:

(i) Expected level of production	1,20,000 units
(ii) Raw materials to remain in stock on an average	2 months
(iii) Processing period for each unit of product (consisting of 100% of raw material wages and overheads)	1 month
(iv) Finished goods remain in stock on an average	month
(v) Credit allowed to the customers from the date of despatch	3 months
(vi) Expected ratios of cost to selling price: (a) Raw materials-60%	
(b) Direct wages -10%	
(c) Overheads – 20%	
(vii) Selling price per unit	Rs 10
(viii)expected margin on sale	10%

You are required to ascertain the working capital requirements of the borrower.

5. A Ltd., Company has equity share capital of Rs.500.000 divided into shares of Rs.100 each. It wishes to raise further Rs. 3,00,000 for expansion cum modernisation plans. The company plans the following financing schemes:
i) All common stock
ii) Rs.one lakh in common stock and Rs two lakhs in debt 10% pa
iii) All debts at 10% pa
iv) Rs.one lakh in common stock and Rs two lakh in preference capital with the rate of dividend at 8%.
The company's existing earnings before interest and tax (EBIT) are Rs.1,50,000. The corporate rate of is 50%. Determine the Earnings per share (EPS) in each plan and interpret on the implications of financial leverage.

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6. XYZ Ltd., is currently earning Rs.1,00,000 and its share is selling at a market price of Rs.80. The firm has 10000 shares outstanding and has no debt. The earnings of the firm are expected to remain stable, and it has a payout ratio of 100%.
   Compute the cost of equity. If the firm's payout ratio is assumed to be 60% and that it earns 15% rate of return on its investment opportunities, then what would be the firm's cost of equity.

7. Describe the company law provisions on dividend payment.

8. Distinguish between current assets and current liability.

Section B

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

9. Describe the functions of the Financial Planner.

10. Compute financial leverage and operating leverage under situations. A and B and Financial Plans I and II respectively from the following information relating to the operation and capital structure of ABC Ltd.,

Installed capacity	1,000 units	
Actual Production and sales	800 units	
Selling price per unit	Rs.20	
Variable cost per unit	Rs.15	
Fixed costs: Situation A	Rs.800	
Situation B	Rs.1,500	
Capital Structure:	Financial Plan	
	I	II
Equity	Rs.5,000	Rs.7,000
Debt	Rs.5,000	Rs.2,000

11. A company issues 1,000 10% preference Shares of Rs.100 each at a discount of 5%. of raising capital are Rs.2,000.
   (i) Explain the cost of Preference Capital.
   (ii) Assume that the firm pays tax at 50%. Compute the after-tax cost of capital of a preferred share sold at Rs.100 with a 12% dividend and a redemption price of Rs.110, if the company redeems it in five years.

12. The following information is available in respect of a firm:
   Cost of capital=12%
   Earning per share=Rs.10
   Rate of return on investment (r)
   i) 15% ii) 12% and iii) 10%
   Determine the value of its shares using Gordan's Model assuming the following:

	D/P ratio	Retention ratio
a	100	0
b	80	20
c	40	60

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13. From the following information evaluate & ascertain a statement showing the working capital requirements

Budgeted Sales	Rs 2,60,000 p.a
Analysis of one rupee of sales	(Rs)
Raw material	0.30
Direct labour	0.40
Overheads	0.20 - - - - - -
Total cost	0.90
Profit	0.10 - - - - - -
Sales	1.00

It is estimated that:

(1) Raw materials are carried in stock for 3 weeks and finished goods for 2 weeks

(2) Factory processing will take 3 weeks and it may be assumed to be consisting of 100% of raw materials, wages and overheads.

(3) Suppliers will give 5 weeks credit

(4) Customers will require 8 weeks credit.

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