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.(Honours) - END SEMESTER EXAMINATIONS NOVEMBER - 2022
SEMESTER - V
20UBHCT5023 - Financial Management

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

Section A

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

1. What are the objectives of financial management?
2. Project 'M' initially costs Rs.50,000. It generates the following cash flows:

Year	Cash inflow Rs.	Present value of Re.1 at 10%
1	18,000	0.909
2	16,000	0.826
3	14,000	0.751
4	12,000	0.683
5	10,000	0.621

Taking the cut – off rate as 10%, suggest whether the project should be accepted of not.

3. Calculate the cost of capital in the following cases:
   (i) X Ltd., issues 12% debentures of face value Rs.100 each and realizes Rs.95 per debenture. The debentures are redeemable after 10 years at a premium of 10%.
   (ii) Y Ltd., issues preference shares of face value Rs.100 each carrying 14% dividend and he realizes Rs.92 per share. The shares are repayable after 12 years at par.
   Note: Both companies are paying income tax at 50%.
4. 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.

5. Find out average amount of working capital requirement.
   Amount locked up in stock:
   Stock of finished goods Rs.10,000
   Stock of material Rs.8,000
   Average credit given:
   Local sales (2 weeks credit) Rs.1,04,000
   Outside state sales (6 weeks credit) Rs.3,12,000
   Time available for payments:
   For purchase (4 weeks) Rs.78,000
   For wages (2 weeks) Rs.2,60,000
   Add 10% to allow for contingencies.
6. From the following capital structure of a company, compute the overall cost of capital using **(i) Book value weights, and (ii) Market value weights.**

Particulars	Book Value Rs.	Market Value Rs.
Equity share capital (Rs.10 per share)	45,000	90,000
Retained earnings	15,000	-
Preference share capital	10,000	10,000
Debentures	30,000	30,000

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

7. Calculate the pay – back period for a project which requires a cash outlay of Rs.2,00,000 and generates cash inflows of Rs.80,000, Rs.40,000, Rs.70,000, Rs.30,000 and Rs.10,000 in the first, second, third, fourth and fifth year respectively.
8. Explain the factors which determine the working capital requirement.

Section B

Part A

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

9. What are various sources available to Indian businessmen for raising funds?
Explain.
10. A company is considering alternative proposals to finance its expansion plan of Rs.4,00,000. Two such proposals are:
    a. Issue of 15% loans of Rs.2,00,000 and issue of 2,000 equity shares of Rs.100 each.
    b. Issue of 4,000 equity shares of Rs.100 each. Given tax rate at 50% and assuming EBIT of Rs.70,000 and Rs.80,000 which alternative is better?
11. Following are the details regarding two companies.

A Ltd.,	B Ltd.,
r= 15%	r =8%
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 40% and 80%.

12. Cost sheet of a company provides the following particulars:
Elements of cost

Raw materials	:	40%
Labour	:	10%
Overheads	:	30%

The following particulars are also available:
    i. Raw materials remain in stock for 6 weeks
    ii. Processing time 4 weeks
    iii. Finished goods are in stock for 5 weeks
    iv. Period of credit allowed to debtors 10 weeks
    v. Lag in payment of wages 2 weeks
    vi. Period of credit allowed by creditors 4 weeks
    vii. Selling price Rs.50 per unit
    viii. Production in units 13,000 p.a

Prepare an estimate of working capital.

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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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