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.B.A. END SEMESTER EXAMINATIONS APRIL-2023
SEMESTER - V
20UBACT5013 - Financial Management

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

Section B

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

1. Illustrate and justify the scope.
2. Two firms R and S are identical except in the method of financing. Firm R has no debt, while firm S has Rs.3,00,000 8% Debentures in financing. Both the firms have a Net operating income (EBIT) of Rs.1,20,000 and equity capitalization rate of 12%.The corporate tax rate is 35%. Calculate the value of the firm using MM approach.
3. Nacho Ltd. has issued 40,000 shares of Rs.10 each fully paid. The market price of these shares are Rs.16 per share. The company has paid a dividend of Rs.0.80 per share. Calculate the Cost of equity on the basis of (i) Dividend yield method and (ii) Earnings price method.
4. Bhagat co's cost of capital is 10% and it is subject to 50% tax rate. The company is considering buying a new finishing machine.The machine will cost Rs.4 lakhs and will reduce material waste by an estimated amount of Rs.1,00,000 a year.The machine will last for 10 years and will have a zero salvage value. Assume straight line method of depreciation on asset.
   i)Compute the annual cash inflow (CFAT), present value, NPV and profitability index. ii)Should the company purchase the new finishing machine?
5. Determine the working capital requirements of a company from the information given below:
   Operating cycle components: Raw materials – 60 days, W.I.P – 45 days, Finished goods – 15 Days, Debtors – 30 days, Creditors – 60 days. Annual turnover – 73 lakh, Cost structure (as % of sale price) is Materials 50%, Labour 30%, Overheads 10% and Profit 10%. Of the Overheads, 30% constitute depreciation. Desired cash price to be held at all times Rs.3 lakh.
6. Explain in brief the decisions involved in financial management.
7. Point out the various types of cost of capital and justify its need in normal course of business.

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8. Explain the dangers of having excessive working capital in a firm.

Section C

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

9. Examine the significance of financial management.

10. A new project requires an investment of Rs.12,00,000.Two alternative methods of financing are
under consideration:
(i)Issue of equity shares of Rs.10 each for Rs.12,00,000
(ii)Issue of equity shares of Rs.10 each for Rs.8,00,000 and issue of 15% Debentures for Rs.4,00,000.
Find out the indifference level of EBIT assuming a tax rate of 35%.Verify your answer.

11. Kanishka Ltd. wants to raise Rs.30,00,000 by issue of new equity shares. The relevant Information is given below:

	Rs.
No.of existing equity shares	50,000
Profit after tax	3,00,000
Market value of existing equity shares	20,00,000

(a) Compute the cost of existing equity capital.
(b) Compute the cost of new equity capital if the shares are issued at a price of Rs.35 per share and the floatation cost is Rs.5 per share.

12. The company is considering the purchase of a new machine. The management wants to buy the machine only when its cost can be recovered in three years.The following information is available.
i) Cost of the machine is Rs.4,50,000.
ii) Sales revenue estimated per year by the installation of new machine is Rs.6,00,000.
iii) Variable cost is 60% of sales.
iv) Annual fixed cost other than depreciation is Rs.40,000.

Advice the management whether the machine can be purchased on the basis of three years recovery of cost. Calculate the average rate of investment of Rs.4,50,000 when the life of the machine is 10 years with no scrap value at the end of the period. Assume 50% income tax.

13. A Company has prepared its annual budget, relevant details which are reproduced below:

(i)Sales Rs.46.80 lakhs	: 78,000 units
(25% cash sales and balance on credit)	
(ii) Raw material cost	: 30% of sales value
(iii)Labour cost	: Rs.6 per unit
(iv)Variable overheads	: Re.1 per unit
(v)Fixed overheads	: Rs.5 lakhs
(including Rs.1,10,000 as depreciation)	
(vi)Budgeted stock levels:	
Raw materials	: 3 weeks
Work in progress	: 1 week (material 100%)
Labour and overheads approximately 50%	
Finished goods	: 2 weeks
(vii)Debtors are allowed credit for	: 4 weeks
(viii)Creditors allow 4 weeks credit	
(ix) Wages are paid bimonthly	
(x) Lag in payment of overheads	: 2 weeks
(xi) Cash in hand required	: Rs.50,000

Prepare the working capital budget for the year for the company making whatever assumptions that you may find necessary.

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