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.(PA) END SEMESTER EXAMINATIONS APRIL-2023
SEMESTER - V
19UPACT5013 - 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 objectives of Financial Management.
2. The following projections have been given in respect of O Bright Co:

Output	3,00,000 units
Fixed cost (Rs.)	3,50,000
Unit variable cost (Re)	1
Interest expenses (Rs.)	25,000
Unit selling price (Rs.)	3

   On the basis of above information, calculate:
   (a) Operating leverage
   (b) Financial leverage
   (c) Combined leverage
3. Dewey Ltd. has an EBIT of Rs.4,50,000. The cost of debt is 10% and the outstanding debt is Rs.12,00,000. The overall capitalisation rate (Ko) is 15%. Calculate the total value of the firm and equity capitalisation rate under NOI approach.
4. A firm issues debentures of Rs.1,00,000 and realises Rs.98,000 after allowing 2% commission to brokers. Debentures carry interest rate of 10%. The debentures are due for maturity at the end of 10^{th} year at par. Calculate cost of debt.
5. The earnings per share of Nadal Ltd. are Rs.15 and the rate of capitalization applicable to the company is 12%. The productivity of earnings (r) is 12%. Compute the market value of the company's share under walter model,if the payout is (i) 20% (ii)50% (iii)70%.

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6. Meraz Ltd. is engaged in large scale customer retailing. From the following information, you are required to forecast its working capital requirements for the year 2005-2006.

   Average stock carrying (in terms of sale requirements)

Projected annual sales	Rs.65 lakhs
Percentage of net profit on cost of sales	20%
Average credit allowed to debtors	10 weeks
Average credit allowed to creditors	4 weeks
Average stock carrying (in terms of sale requirements)	8 weeks

   Add 10% to computed figures to allow for contingencies.

7. Discuss the significance of working capital in a firm.

8. Explain the factors that influence the dividend policy of a firm.

Section C

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

9. Explain briefly the relationship between financial management and other functional areas.

10. 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 are of 12%. The corporate tax rate is 35%. Calculate the value of the firm using MM approach.

11. Your company's share is quoted in the market at Rs.20 currently. The company pays a dividend of Rs.1 per share and the investors expect a growth rate of 5% per year.
    (i) Compute the company's cost of equity capital
    (ii) If the anticipated growth rate is 6% p.a., calculate the indicated market price per share.
    (iii) If the company's cost of capital is 8% and the anticipated growth rate is 5% p.a, calculate the indicated market price, if the dividend of Rs.1 per share is to be maintained?

12. Stewart Ltd. has 40,000 shares outstanding. The current market price of these shares is Rs.15 each. The Board of directors of the company has recommended Rs.2 per share as dividend. The rate of capitalisation appropriate to the risk-class to which the company belongs is 20%.
    (i) Based on MM approach, calculate the market price of the share of the company when the recommended dividend is (a) distributed and (b) not declared.

(ii) How many new shares to be issued by the company at the end of the accounting year on the assumption that the net income for the year is Rs.1,20,000 and the investment budget is Rs.2,80,000 when (a) the above dividends and (b) dividends are not declared.

13. 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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