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 -2023
SEMESTER - V
20UAFCT5016 - 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 different sources of finance.
2. ABC Ltd., needs Rs.30,00,000 for the installation of a new factory. The new factory expects to yield annual earnings before interest and tax (EBIT) of Rs.5,00,000. In choosing a financial plan, ABC Ltd., has an objective of maximizing earnings per share (EPS). The company proposes to issuing ordinary shares and raising debit of Rs.3,00,000 and Rs.10,00,000 of Rs.15,00,000. The current market price per share is Rs.250 and is expected to drop to Rs.200 if the funds are borrowed in excess of Rs.12,00,000. Funds can be raised at the following rates.
   –up to Rs.3,00,000 at 8%
   –over Rs.3,00,000 to Rs.15,00,000 at 10%
   –over Rs.15,00,000 at 15%
   Assuming a tax rate of 50% advise the company.
3. (a) A Company expects a net income of Rs.1,00,000. It has Rs.2,50,000, 8% debentures. The equality capitalization rate of the company is 10%. Calculate the value of the firm and overall capitalization rate according to the net income approach (ignoring income tax).
   (b) If the debenture debts are increased to Rs.4,00,000. What shall be the value of the firm and the overall capitalization rate?
4. The current market price of the shares of A Ltd., is Rs.95. The floatation costs are Rs.5 per share amounts to Rs.4.50 and is expected to grow at a rate of 7%. You are required to calculate the cost of equity share capital.
5. A firm is considering an expenditure of Rs.75 lakhs for expanding its operations. The relevant information is as follows :
   Number of existing equity shares = 10 lakhs
   Market value of existing share = Rs.100
   Net earnings = Rs.100 lakhs
   Compute the cost of existing equity share capital and of new equity capital assuming that new shares will be issued at a price of Rs.92 per share and the costs of new issue will be Rs.2 per share.
6. X Company Ltd., has 1,00,000 shares outstanding the current market price of the shares Rs.15 each. The company expects the net profit of Rs.2,00,000 during the year and it belongs to a rich class for which the appropriate capitalisation rate has been estimated to be 20%. The company is considering dividend of Rs.2.50 per share for the current year.
   What will be the price of the share at the end of the year
   (i) if the dividend is paid and
   (ii) if the dividend is not paid.

Contd...

7. Prepare an estimate of working capital requirement from the following information of a trading concern.
   Projected annual sales 10,000 units.
   Selling price Rs.10 per unit.
   Percentage of net profit on sales 20%.
   Average credit period allowed to customers 8 Weeks.
   Average credit period allowed by suppliers 4 Weeks.
   Average stock holding in terms of sales requirements 12 Weeks.
   Allow 10% for contingencies.

8. What are the factors that influence the working capital requirement.

Section C

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

9. Describe the Role of financial managers in Financial Management.

10. Paramount Products Ltd., wants to raise Rs.100 lakhs for diversification project. Current estimates of EBIT from the new project is Rs.22 lakhs p.a.
    Cost of debt will be 15% for amounts up to and including Rs.40 lakhs, 16% for additional amounts up to and including Rs.50 lakhs and 18% for additional amounts above Rs.50 lakh. The equity shares (face value of Rs.10) of the company have a current market value of Rs.40. This is expected to fall to Rs.32 if debts exceeding Rs.50 lakhs are raised. The following options are under consideration of the company.

Option	**Debt**	**Equity**
I	50%	50%
II	40%	60%
III	60%	40%

    Determine EPS for each option and state which option should the Company adopt. Tax rate is 50%.

11. A company has on its books the following amounts and specific costs of each type of capital.

Types of Capital	**Book Value (Rs.)**	**Market Value (Rs.)**	**Specific Cost (%)**
Debt	4,00,000	3,80,000	5
Preference	1,00,000	1,10,000	8
Equity	6,00,000	9,00,000	15
Retained Earnings	2,00,000	3,00,000	13
	13,00,000	**16,90,000**	

    Determine the weighted average cost of capital using:
    (a) Book value weights, and
    (b) Market value weights.
    How are they different? Can you think of a situation where the weighted average cost of capital would be the same using either of the weights?

12. The earnings per share of a company are Rs.80 and the rate of capitalization applicable to the company is 12%. The company has before it an option of adopting a payment ratio of 25% (or) 50%(or) 75%. Using Walter's formula of dividend payout, compute the market value of the company's share of the productivity of retained earnings (i) 12% (ii) 8% (iii) 5%.

13. The board of directors of Aravind mills limited request you to prepare a statement showing the working capital requirements for a level of activity of 30,000 units of output for the year. The cost structure for the company's product for the above mentioned activity level is given below.

	Cost per Unit (Rs.)
Raw materials	20
Direct labour	5
Overheads	15
Total	40
Profit	10
Selling price	50

   (a) Past experience indicates that raw materials are held in stock, on an average for 2 months.
   (b) Work in progress (100% complete in regard to materials and 50% for labour and overheads) will be half a month's production.
   (c) Finished goods are in stock on an average for 1 month.
   (d) Credit allowed to suppliers: 1 month.
   (e) Credit allowed to debtors: 2 months.
   (f) A minimum cash balance of Rs.25,000 is expected to be maintained. Prepare a statement of working capital requirements.

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