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 APRIL - 2024
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. Briefly explain the various sources of finance.
2. A firm issues debentures of Rs.1,00,000 and realizes Rs.98,000 after allowing 2% commission to brokers. The debentures carry an interest of 10%. The debentures are due for maturity at the end of the 10^{th} year.
   You are required to Compute the effective cost of debt before tax.
3. The cost of capital and the rate of return on investment of Rafael Ltd, are 10%, and 18% respectively. The company has 5 lakh equity shares of Rs.10 each outstanding and earnings per share are Rs.20. Compute the market price per share and value of firm in the following situations. Use Walter model and comment on the results.
   i) No retention ii) $0% retention, iii) 80% retention.
4. From the following estimates, Compute the average amount of working capital required.

		Per Annum (Rs.)
i)	Average amount locked up in stock:	
	Stock of finished goods and work-in-progress	10,000
	Stock of stores, materials etc.	8,000
ii)	Average credit given:	
	Local Sales 2 week's credit	1,04,000
	Outside the State 6 week's credit	3,12,000
iii)	Time available for payments:	
	For purchases 4 weeks	78,000
	For wages 2 weeks	2,60,000

   Add 10% to allow for contingencies.
5. Compute operating and financial leverage from the following particulars.
   Units sold – 5,000
   Selling price p.u. Rs.30
   Variable cost p.u. Rs.20;
   EBIT Rs.30,000
   10% public debt Rs.1,00,000
6. From the following information is available with regards to the Capital structure of Edwards Ltd:

	Amount (Rs.)	After tax cost of capital %
Debentures	12,00,000	5%
Preference share capital	4,00,000	10%
Equity share capital	8,00,000	15%
Retuned earnings	16,00,000	12%

   You are required to compute weighted average cost of capital.

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7. Describe the different types of dividend policy.
8. From the following information relating to Perara Ltd., Determine (a) Operating Cycles , (b) Number of (operating cycles in a year assuming a 360 day year, and (c) Average working capital required, if annual cash operating expenses are Rs.150 lakh.

Stock holding : Raw materials	- 2 months
W.I.P	- 15 days
Finished goods	- 1 months
Average debt collection period	- 2 months
Average payment period	- 45 days

Section C

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

9. Explain the functions of Financial Management.
10. A Company's capital structure consists of the following:

	Rs. In lakhs
Equity Shares of Rs.100 each	20
Retained earnings	10
9 % Preference shares	12
7 % Debentures	8
Total	50

The company earns 12% on its capital. The income tax rate is 50%. The company requires a sum of Rs.25 lakhs to finance its expansion programme for which following alternatives are available to it:
i) Issue of 20,000 equity shares at a premium of Rs.25 per share.
ii) Issue of 10% preference shares.
iii) Issue of 8% debentures.
It is estimated that the P/E ratios in the case of Equity, Preference and Debenture financing would be 21.4, 17 and 15.7 respectively. Which of the three financing alternatives would you recommend and why?

11. Malaiya Ltd., issued 60,000 15% irredeemable preference shares of Rs.100 each. The issue Expenses were Rs.60,000. Determine the cost preference capital if shares are issued (a) at par, (b) at a premium of 10%vand (c) at a discount of 5%.
12. The following relates to Yanina Ltd.,
Earnings per share = Rs.14
Capitalization rate = 15%
Rate of return = 20%
Compute the market price per share under Gordon' s model if retention
(a) 40% , (b)60%,(c)20%.
13. X & Co. is desirous to purchase a business and has consulted you and one point on whichyou are asked to advise them is the average amount of working capital which will be required in the first year's working.
You are given the following estimates and are instructed to add 10% to your computed figure to allow for contingencies:

Figures for the year

	Rs.
i) Average amount locked up for the stocks:	5,000
Stock of finished products	8,000
Stock of stores, materials etc.	
ii) Average credit given:	
Inland sales – 6 weeks credit	3,12,000
Export sales – 1 ½ weeks credit	78,000
iii) Lag in payment of wages and other outgoings:	
Wages – 1 ½ weeks	2,60,000
Stores, materials, etc – 1 ½ months	48,000
Rent, royalties etc. – 6 months	10,000
Clerical staff – ½ month	62,400
Manager – ½ month	4,800
Miscellaneous expenses – 1 ½ months	48,000
iv) Payment in advance:	
Sundry expenses (paid quarterly in advance)	8,000
v) Undrawn profits on the average throughout the year	11,000

Ascertain the average amount of working capital required.

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