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. CS - END SEMESTER EXAMINATIONS - NOV'2024
SEMESTER - III
24UBCCT3008 - Financial Management

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

Section B

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

1. Show how is the goal of Wealth maximization a better operative criterion than that of profit maximization?

2. Blue Sky Ltd., has an EBIT Rs.2,00,000. The cost of debt is 10% and the outstanding debt is Rs.9,00,000. The overall capitalisation rate (Ko)is 12.5%. Compute the Total Value of the firm(V) and Equity capitalisation Rate (Ke) under NOI Approach.

3. Varun Ltd. has 50,000 equity shares of Rs.10 each outstanding on January 1. The shares are currently quoted at Rs.20 in the market. The company intends to pay a dividend of Rs.2 per share for the current calendar year. It belongs to a risk class whose appropriate capitalisation rate (Ke) is 15%. Using MM Model and assuming no taxes, predict the price of the company's share.
   a. When Dividend is not declared.
   b. When Dividend is declared.

4. From the following Balance sheet compute
   a. Gross Working capital
   b. Net Working Capital.

Balance Sheet as on 31.12.2005

Liabilities	Rs.	Assets	Rs.
Share Capital	6,00,000	Fixed Assets:	
Reserves	1,00,000	Building	3,00,000
Debentures	3,00,000	Plant	4,00,000
Current Liabilities:		Current Assets:	
Bank loan	1,00,000	Cash	60,000
Creditors	60,000	Investments	1,00,000
Bills Payable	40,000	Debtors	1,40,000
		Inventory	2,00,000
	12,00,000		12,00,000

Contd...

5. From the following particulars, interpret the Weighted average cost of capital using book value weights.

Sources of funds	Book Value (Rs.)	After Tax cost (%)
Equity Share capital	4,00,000	14
Retained earnings	2,00,000	13
Preference Share capital	1,00,000	10
Debentures	3,00,000	6

6. There are 2 companies "L Ltd.," and "U Ltd., Which are identical in all aspects in all respects except in terms of their capital structure. Following information is available:

Particulars	L Ltd.,	U Ltd.,
EBIT (Rs.)	1,00,000	1,00,000
12% Debentures (Rs.)	5,00,000	NIL
Equity Capitalisation rate	20%	16%

Compute the value of two firms and illustrate by applying MM approach how an investor holding 10% shares of L Ltd., Will be benefited by switching over his investments from L Ltd., to U Ltd.

7. The following projections have been given in respect of Companies X and Y

Particulars	L Ltd.,	U Ltd.,
EBIT (Rs.)	1,00,000	1,00,000
12% Debentures (Rs.)	5,00,000	NIL
Equity Capitalisation rate	20%	16%

On the basis of the above information compute

a) Operating leverage
b) financial Leverage
c) combined Leverage
d) operating Break-even point in Units.

8. From the following particulars, ascertain

a) Net operating cycle period
b) Number of operating cycles in a year.
c) The amount of working capital.

Contd...

Period Covered	360 days
Average period allowed by suppliers	30 days
Average period allowed to debtors	45 days
Raw materials consumed during the year	6,00,000
Average stock of Raw material	50,000
Work in progress inventory	5,00,000
Average work in progress inventory	30,000
Finished goods inventory	8,00,000
Average Finished good stock held	40,000
Total cost of sales	8,40,000

Section C

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

9. Explain how the scope of finance function has changed overtime. What role does a finance manager play in a modern firm?

10. A company issues 10,000 debentures of Rs.100 each at 14% interest per annum.Marketing costs are Rs20,000.The debentures are to be redeemed after 10 years and the company is taxed at the rate of 40%
Compute the cost of debt if the bonds are issued at
a) Par b) Discount of 5% c) Premium of 5%.

11. Evergreen company has the choice of raising an additional sum of Rs.50 lakhs either by sale of 10% debentures or by issue of additional equity shares at Rs.50 per share. The current capital structure of the company consists of 10 lakh ordinary share and no debt.
    a) At what level of EBIT after the new capital is acquired, would EPS be the same whether new funds are raised either by issuing ordinary shares or by issuing debentures?
    b) Determine the level of EBIT at which EPS would be the same, if the sinking fund obligations amounts to Rs.5 lakhs per year. Assume a tax rate of 50%.

    Recommend the best plan for the Ideal Capital structure of the company.

12. Following particulars relate to three companies

	A (Growth Firm)	**B (Normal Firm)**	**C (Declining Firm)**
r	15%	10%	5%
Ke	10%	10%	10%
E	Rs.8	Rs.8	Rs.8

Contd...

Using Walter's model, calculate the value of equity share of these companies, if the dividend payout is:

a. 25%

b. 50%

c. 75%

How shall the price of the share be affected if a different payout ratio was employed, Justify your view.

13. Tom Co Ltd., desires to purchase a business has consulted to give suggestions about the average amount of working capital required for first year's working. You are given the following estimates and are instructed to add 10% to the computed figures to allow for contingencies. Calculate the average amount of working capital required.

1	Average amount locked up in stock:	
	Stock of finished goods	5,000
	Stock of Stores, raw materials	8,000
2	Average Credit given:	
	Inland Sales (6 weeks credit)	3,12,000
	Export Sales (1.5 weeks credit)	78,000
3	Lag in payments	
	Wages (1.5 weeks)	2,60,000
	Stores, materials (1.5 months)	48,000
	Rent (6 months)	10,000
	Clerical Staff (0.5 month)	62,400
	Manager (0.5 month)	4,800
	Miscellaneous expenses (1.5 month)	48,000
4	Payment in advance:	
	Sundry expenses (Paid quarterly in advance)	8,000
5	Undrawn profits on an average throughout the year	11,000

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