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 - NOV’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. What are the objectives of finance?

2. Sind Limited a widely held company is considering a major expansion of its production facilities and the following financing alternatives are available:

	Alternatives (Rs. in lakh)		
	A	**B**	**C**
Equity share capital ₹10 each	60	30	10
12% debentures	-	20	25
15% loan from a financial institution	-	10	25

Expected rate of return before tax is 20%. The rate of dividend of the company is not less than 18%. The company at present has low debt. Corporate taxation is 35% Which of the alternatives you would choose?

3. 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.

4. The cost of capital and the rate of return on investment of R 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) 40%, retention, (iii) 80% retention.

5. State the factors which influence working capital.

6. From the following information extracted from the books of a manufacturing company, compute the operating cycle in days:

Period covered	:	365 days
Average period of credit allowed by suppliers	:	16 days

Contd...

	Rs.
Average total of debtors outstanding	4,80,000
Raw materials consumption	44,00,000
Total production cost	1,00,00,000
Total cost of sales	1,05,00,000
Sales for the year	1,60,00,000
Value of average stock maintained:	
Raw materials	3,20,000
Work- in - progress	3,50,000
Finished goods	2,60,000

7. The rate of return available to the equity shareholders in the Eva Limited is 20% and the personal tax rate applicable to shareholder is 22%. It is expected that the shareholders will have to bear a brokerage cost of 3% when they invest their dividends in alternative securities. Compute the cost of retained earnings.

8. Ferry limited has the following capital structure:

	Rs. In lakh
Equity shares: 2 lakh Nos. @ Rs.10 each	20
Reserves & Surplus	5
11% Debentures each of face value Rs.100	15
	40

The company needs Rs.10 lakh to execute a new project which will raise its operating profit (EBIT) from the current level of Rs.6 lakh to Rs.8 lakh. It is considering the following options:

I. Issue of equity shares at a premium of ₹10 each for the entire amount.
II. Issue of 13% debentures for 10 lakh required additionally.
III. Issue of equity shares for ₹6 lakh at a premium of ₹30 per share and the issue of 13% debentures for the balance amount.

The company's tax rate is 50%. Evaluate the three options and advise the company.

Section C

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

9. Explain the role of financial managers in financial management.

10. Anderson limited is considering two plans to finance a project costing RS.50 lakh. The details are:

	Plan I Rs.in lakh	Plan II Rs.in lakh
Equity share capital (Rs.100 per share)	20	25
12% Debentures	30	25
	50	50

Contd...

Sales for the first three years of operations are projected at ₹120, 150 and 180 lakhs respectively. EBIT is expected to be 15% of sales. corporate taxation is 35%. Calculate the EPS in each of the plans for three years.

11. Following information is available with regards to the capital structure of Edwarts 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%
Retained earnings	16,00,000	12%

You are required to calculate weighted average cost of capital (WACC).

12. The following data relates to Y Ltd.,

Earnings per share	Rs.14
Capitalisation rate	15%
Rate of return	20%

Determine the market price per share under Gordon's model if retention is a. 40%, b. 60% and c. 20%.

13. Compute the working capital requirement of R ltd. From the information given below:

Annual sales	14,40,000
Cost of production including depreciation Rs.95,000	12,00,000
Raw material purchases	7,02,000
Overheads per month	32,500
Anticipated opening stock of raw materials	1,43,000
Anticipated closing stock of raw materials	1,30,000
Inventory norms:	
Raw materials	8 weeks
Work- in- progress	2 weeks
Finished goods	4 weeks
Credit allowed to debtors	4 weeks
Credit allowed by creditors	2 weeks
Cash balance desired to be maintained	Rs.25,000

The company received an advance of Rs.40,000 on sales orders.

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