

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 - NOV'2024
SEMESTER - V

21UPACT5013 - Financial Management

Total Duration : 2 Hrs.30 Mins.

Total Marks : 60

Section B

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

1. Define financial management and what are its primary objectives?
2. Describe the responsibilities of a financial manager in an organization.
3. A company has an EBIT of Rs.1,50,000, interest expenses of Rs.30,000, and the number of shares outstanding is 10,000. Calculate the Degree of Financial Leverage (DFL) at the current EBIT level.
4. X Ltd., is expecting an annual EBIT of Rs.1,00,000. The company has Rs.4,00,000 in 10% debentures. The cost of equity capital or capitalisation rate is 12.5%. you are required to calculate the total value of the firm according to the net income approach.
5. A company has Rs.300,000 in equity, Rs.1,00,000 in debt, a cost of equity of 10%, and an after-tax cost of debt of 5%. Calculate the WACC.
6. Rose Ltd., is engaged in customer retailing. You are required to estimate its working capital requirements from the following data:

Projected annual sales	Rs.9,00,000
Percentage of net profit to cost of sales	20%
Average credit allowed to debtors	1 month
Average credit allowed by creditors	2 1/2 months
Average stock carrying (in terms of sales requirements)	2 months

Add: 10% to allow for contingencies?
7. A company has earnings of Rs.5,00,000 a retention ratio of 40%, and it plans to pay out dividends. Calculate the dividends paid.
8. The following information has been provided by a company for the year ended 30.06.2018

Liabilities	Rs.	Assets	Rs.
Equity share capital	2,00,000	Fixed assets less depreciation	3,00,000
8% debentures	1,00,000	Inventories	1,00,000
Reserves	50,000	Debtors	70,000
Long term loans	50,000	Cash	10,000
Creditors	80,000		
	4,80,000		4,80,000

Contd...

Sales for the year ended 30.06.2018 amounted to Rs.10,00,000 and it is estimated that the same will amount Rs.12,00,000 for the year 2018-19.

You are required to estimate the working capital requirements for the year 2018–19 assuming the linear relationship between sales and working capital.

Section C

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

9. Describe the various sources of finance available to business, highlighting their advantages and disadvantages.
10. AB Ltd., needs Rs.10,00,000 for expansion. The expansion is expected to yield an annual EBIT of Rs.1,60,000. In choosing a financial plan, AB Ltd has an objective of maximising earnings per share. It is considering the possibility of issuing equity shares and raising debt of Rs.1,00,000 or Rs.4,00,000 or Rs.6,00,000. The current market price per share is Rs.25 and is expected to drop to Rs.20 if the funds are borrowed in excess of Rs.5,00,000.

Funds can be borrowed at the rates indicated below:

- (a) Up to Rs.1,00,000 at 8% (b) Over Rs.1,00,000 up to Rs. 5,00,000 at 12%
(c) Over Rs.5,00,000 at 18%

Assume a tax rate of 50%. Determine the EPS for the three financing alternatives and suggest the scheme which would meet the objective of the management.

11. The following is an extract from the financial statement of KPN Ltd.,

Particulars	Rs. in lakhs
Operating profit	105
Less : interest on debentures	33
	72
Less : income – tax	36
Net profit	36
Equity share capital (shares of Rs.10 each)	200
Reserves	100
15% non-convertible debentures	220
	520

The market price per equity share is Rs.12 and per debenture Rs.93.75

- What is the Earning Per Share?
- What is the percentage of cost of capital to the company for the debenture funds and the equity?

Contd...

12. Chetan Ltd., earns Rs.50 per share.

The capitalization rate is 15% and the return on investment is 18%. Under Walter's Model, determine

a) The optimum Payout

b) The market price of the share at this payout

c) The market price of the share if pay-out is 40%

The market price of the share if pay-out is 80%.

13. From the following information you are required to estimate the net working capital

Particulars	Cost per unit (Rs.)
Raw materials	400
Direct labour	150
Overheads including depreciation	300
Total cost	850
Additional information:	
Selling price	Rs.1,000 per unit
Output	52,000 units per annum
Raw material in stock	Average 4 weeks
Work in process (assume 50% completion stage with full material consumption)	Average 2 weeks
Finished goods in stock	Average 4 weeks
Credit allowed by suppliers	Average 4 weeks
Creditors allowed to debtors	Average 8 weeks
Cash at bank is expected to be	Rs.50,000

Assume that production is sustained at a even pace during the 52 weeks of the year. All sales are on credit basis. State any other assumption that you might have made while computing.
