Reg. No.. Name..

B. COM DEGREE END SEMESTER EXAMINATION OCTOBER 2017

SEMESTER – 3: COMMERCE (OPTIONAL COURSE FOR FINANCE AND TAXATION)

COURSE: 15U3OPCFT1 - FINANCIAL MANAGEMENT

For Regular (2016 Admission) & Supplementary / Improvement (2015 Admission)

Time: Three Hours Max. Marks: 75

SECTION – A

*Answer **all** questions. Each question carries 2 marks.*

1. Define Financial Management
2. What is Sweat equity shares?
3. What is the purpose of issuing deferred shares?
4. What do you mean by Marginal Cost of Capital?
5. Explain Bridge Finance.
6. Explain the concept of financial leverage?
7. Distinguish between of Trading on thin equity and Trading on thick equity?
8. What do you mean by Temporary working capital?
9. What is the purpose of estimating the Operating cycle of a firm?
10. What is Stock split? (2 x 10 = 20)

SECTION – B

*Answer **any five** questions. Each question carries 5 marks.*

11. Write short notes on the modern approach to finance function.
12. Briefly explain the the Cost Theory of Capitalisation.
13. A company issues 1,00,000 12% Debentures of Rs. 10 each at a discount of 8%, redeemable after 8 years. The cost of floatation amounts to Rs. 40,000. Calculate after tax, the cost of debt capital, assuming the rate of tax as 40%.
14. From the following details related to the capital structure of Neptune Ltd., calculate the Weighted Average cost of capital.

Source of Finance	Amount	Cost of Capital (After tax)
Equity Share Capital	1,000,000	15%
Preference Share Capital	700,000	14%
Retained Earnings	600,000	12%
Debentures	500,000	7%
Total	2,800,000	

15. The capital structure of a company consists of 3,00,000 Equity shares of Rs. 100 each and 14% debentures of Rs. 20,00,000. Sales during the year 2015-16 was Rs. 40,00,000. Fixed cost and variable cost during this period were Rs. 8,00,000 and Rs. 25,00,000 respectively. You are required to calculate Composite leverage.
16. From the following information, calculate Operating cycle (in days) of the firm.

Particulars	Amount
Credit sales	192000
Raw materials consumed	51960
Total production cost	117600
Cost of sales	126000
Average debtors outstanding	5760
Value of average stock maintained	
a) Raw materials	3840
b) Work in progress	4200
c) Finished goods	3120
Credit period allowed by creditors (in days)	18

17. A, B and C are identical companies in steel industry, having equal EPS of Rs. 70. The cost of equity has been estimated at 18%. Under Gordon's Model, estimate the market price of shares of these companies if their dividend payout ratios are 20%, 50% and 80%. Assume IRR as 16%.

(5 x 5 = 25)

SECTION – C

*(Answer **any Three** questions. Each question carries 10 marks)*

18. Explain the internal and external factors determining the capital structure of a company.
19. What is Under capitalisation? Explain the indicators, causes and effects of undercapitalisation?
20. The capital structure of Nirmal Ltd. Consists of 15% 8,000 debentures of Rs. 100 each and 10,000 equity shares of Rs. 100 each. Assuming the corporate tax as 40%, calculate EPS and Financial Leverage when operating profit (EBIT) is (a) Rs. 3,00,000 (b) Rs. 4,00,000 and (c) Rs. 6,00,000.
21. An estimated cost statement of Bharat Ltd provides the following information:

Particulars	Rs.
Direct Material	120
Direct Labour	60
Overheads	40
Total Cost	220
Profit per unit	40
Selling price price unit	260

Additional Information:

a) Expectation of materials to be kept in store - One month.
b) Expectation of Materials in production process - Half month.
c) Expectation of Finished goods in warehouse for sale - One month.
d) Credit allowed to debtors – Two months.
e) Credit allowed by suppliers - One month.
f) W.I.P. normally consists of 100% raw materials, 50% wages and 50% overheads.
g) Time lag for the payment of wages is two weeks and one month for overheads.
h) All purchases and three-fourth of the total sales are on credit basis.
i) Cash balance is to be maintained as Rs. 2,00,000.
j) It is proposed to maintain a level of activity of 90,000 units.

Prepare a statement showing the working capital requirement, assuming that production is evenly carried out throughout the year (360 days).

22. The following information is available from the records of Pioneer Ltd.

Face value of shares = Rs. 100
Earnings per share = Rs. 30
Internal Rate of Return = Rs. 15%
Capitalisation rate of its risk class = 12%

1) According to Walters Model, what is the optimum payout ratio to maximise the value of shares?
2) Using Walter's Model, determine the price per share if:
a) The dividend payout ratio is 30%
b) The dividend payout ratio is 50%
c) The dividend payout ratio is 70% (10 x 3 = 30)

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