Reg. No .... Name **20U352**

B. COM. DEGREE END SEMESTER EXAMINATION - OCT. 2020: JANUARY 2021

SEMESTER 3 : B COM FINANCE AND TAXATION

COURSE : **19U3OPCFT1 / 15U3OPCFT1 : FINANCIAL MANAGEMENT**

(For Regular - 2019 Admission and Improvement /Supplementary 2018/ 2017/ 2016/2015 Admissions)

Time : Three Hours Max. Marks: 75

PART A

Answer any 10 (2 marks each)

1. What do you mean by compound value?
2. Why is financial management known as corporate finance?
3. Calculate the future value of the following series of payments at 10% rate of interest, if payments are at the end of the year. The payments in the first, second, third, fourth and fifth years are Rs. 1,000, Rs. 2,000, Rs. 3,000, Rs. 2,000 and Rs. 1,500 respectively.
4. What is cost-volume-profit analysis?
5. What is average cost of capital?
6. Differentiate cost of debt and cost of equity capital.
7. What is cost of perpetual debt?
8. Calculate the approximate cost of a company's debenture capital, when it decides to issue 10,000 nos of 14% non-convertible debentures each of face value Rs.100 at par. The debentures are redeemable at a premium of 10% after 10 years. The average realisation is expected to be Rs.92 per debenture and tax rate applicable to the company is 40%.
9. Differentiate financial risk and business risk?
10. What is gross working capital?
11. What are the advantages of stock split?
12. What do you mean by capitalisation of profits?

(2 x 10 = 20)

PART B

Answer any 5 (5 marks each)

13. What are the practical applications of time value of money? Explain with examples
14. M/s Albert & Co has the following capital structure as on 31st March 2018;

10% Debentures	3,00,000
9% preference shares	2,00,000
Equity-5000 shares of Rs.100 each	5,00,000
Total	10,00,000

The equity shares of the company are quoted at Rs.102 and the company is expected to declare a dividend of Rs.9 per share for 2018

a) Assuming the tax rate applicable to the company at 50%. Calculate the weighted average cost of capital. State your assumptions if any.

b) Assuming in the above, that the company can raise additional term loan at 12% for Rs. 5,00,000 to finance an expansion, calculate the revised weighted cost of capital. The company's assessment is that it will be in a position to increase the dividend from Rs. 9 per share to Rs. 10 per share, but the business risk associated with new financing will bring down the market price from Rs. 102 to Rs.96 per share.

15. Why is cost of capital referred to as the minimum rate of return from investments?

16. What do you mean by capital structure of a company, how is it different from financial structure, explain with an example?

17. A company has the choice for raising an additional sum of Rs. 20,00,000 either by raising 10% debt or by issue of additional equity shares of Rs.100 each at par. The present capital structure of the company consists of 200000 equity shares of Rs. 100 each and no debt. At what level of earnings before interest and tax (EBIT) after the new funds are raised, would earning per share (EPS) be the same whether new funds are raised either by raising debt or issue of equity shares. Assume a tax rate of 50%.

18. Prepare a statement showing working capital requirements of Finolex Ltd., a trading company, from the following details.

    a) Sales(annual) : 2,00,000 units
    b) Selling price : Rs.20 per unit
    c) Percentage on net profit on sales: 25%
    d) Average credit period allowed to customers: 8 weeks
    e) Average credit period allowed by suppliers:4 weeks.
    f) Average stock holding in terms of sales requirements:12 weeks
    g) Provide 10%for contingencies.

19. Sunrise Company Ltd. has an EPS of Rs. 20. IRR of the company is 20% and cost of capital is 15%. Find the market price of the shares at 20%, 50% and 80% pay out. Will there be any change in market price if IRR becomes 12%? Which pay out do you advice under both conditions using Walter's model?

20. Expandent Ltd. had 50,000 equity shares of Rs.10 each outstanding on January 1. The shares are currently being quoted at par in the market. In the wake of the removal of dividend restraint, the company now 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 is 15%. Using MM model and assuming no taxes, ascertain the price of the company's share as it is likely to prevail at the end of the year (i) when dividend is declared (ii) when no dividend is declared. Also find the number of new equity shares to be issued and the value of the firm in both the situations to meet its investment needs of Rs. 2 lakhs, assuming a net income of 1.1 lakhs and also assuming that the dividend is paid.

(5 x 5 = 25)

PART C

Answer any 3 (10 marks each)

21. Briefly explain the role of a finance manager in the light of the finance function of a company.

22. ABC Ltd wishes to raise additional finance of RS 20 lakhs for meeting its investment plans. The company has Rs. 4,00,000 in the form of retained earnings available for investment purposes. The following are the further details:

    - Debt equity ratio 25:75
    - Cost of debt @ of 10%(before tax) upto Rs 2,00,000 and 13%(before tax) beyond that
    - Earning per share, Rs.12
    - Dividend pay-out 50% of earnings
    - Expected growth rate in dividend 10%
    - Current market price per share Rs 60
    - Company's tax rate is 30% and shareholders personal tax rate is 20%

    Required:

    a) Compute the post-tax average cost of additional debt
    b) Calculate the cost of retained earnings and cost of equity
    c) Calculate the overall weighted average (after tax) cost of additional finance.

23. Calculate the level of EBIT at which the indifference point between the following financing alternatives will occur. Also verify your results.

a) Common share capital of Rs.10,00,000 or 15% debentures of Rs. 5,00,000 and common share capital of Rs, 5,00,000.

b) Common share capital of 10,00,000 or 13% preference share capital of Rs. 5,00,000 and common share capital of Rs. 5,00,000.

c) Common share capitals of Rs. 10,00,000 or common share capitals of Rs. 5,00,000, 13% preference share capital of Rs. 2,00,000 and 15% debentures of Rs.3,00,000.

24. Prepare a cash budget for March, April, May and June. Cash on hand in the beginning of March is Rs.6 lakhs. One -third of credit sales in each month is collected in the following month and the balance two-thirds is collected in the second month following the sale. Opening balance of debtors in March is Rs. 30 lakhs.

Particulars	March	April	May	June
Credit sales (Rs.)	9,30,000	12,00,000	15,90,000	22,00,000
Cash expenses (Rs.)	8,000	10,000	12,000	13,600
Purchase of fixed asset (Rs)	-	22,000	60,000	-
Income tax payment (Rs.)	-	-		14,500

Expenses due and payable in the months of February to June are Rs. 3000, Rs. 5000, Rs. 4,000, Rs. 6,000 and Rs. 2,000. They are paid in cash in the month following the month in which they are incurred.

25. A newly formed company has applied to the commercial bank for the first time for financing its working capital requirements. The following information is available about the projections for the current year:

Estimated level of activity: 104000 completed units of production plus 4000 units of work in progress. Based on the above activity estimated cost per unit is:

Raw material	80
Direct wages	30
Overheads (exclusive of depreciation)	60
Total cost	170
Selling price	200

Raw materials in stock: average 4 weeks consumption, work in progress (assume 50% completion stage in respect of conversion cost) (materials issued at the start of the processing)

Finished goods in stock	8000 units
Credit allowed by suppliers	Average 4 weeks
Credit allowed to debtors/receivables	Average 8 weeks
Lag in payment of wages	1.5 weeks
Cash at bank (for smooth operation is expected to be)	Rs. 25000

Assume that production is carried on evenly throughout the year (52 weeks) and wages and overheads accrue similarly. All sales are on credit basis only. Find out the net working capital requirements.

(10 x 3 = 30)