Reg. No………………….….…………..… Name………………….…….……… **18U347**

B. COM. DEGREE END SEMESTER EXAMINATION - OCTOBER 2018

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

COURSE: 15U3OPCFT1, FINANCIAL MANAGEMENT

(For Regular 2017 Admission and Supplementary / Improvement 2016, 2015 Admissions)

Time: Three Hours Max. Marks: 75

Section – A

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

1. What do you mean by finance function?
2. What is capitalization?
3. What do you mean by arbitrage process?
4. What is weighted cost of capital?
5. What is meant operating leverage?
6. What working capital cycle?
7. What is private finance?
8. What is meant by D/P ratio?
9. What is time value of money?
10. What is optimum capital structure?

(2 x 10 = 20 Marks)

Section – B

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

11. Discuss the objectives of financial management.
12. Explain the traditional approach of relationship between capital structure and valuation of the firm.
13. The following is the capital structure of X Ltd.

Debentures	300000
Preference shares	200000
Equity shares	400000
Retained earnings	100000

The after tax cost of capital of specific sources is as under:

Cost of Debentures	4.77%
Cost of Preference shares	10.53%
Cost of equity shares	14.59%
Cost of retained earnings	14.00%

Calculate weighted average cost of capital.

14. A company has Rs.200000 as EBIT. It has Rs.10,0,0000 10% debentures. The equity capitalization rate of the company is 12.5%. Find out the value of the firm and cost of overall cost of capital under Net Income Approach.
15. Given:
    (i) Earnings per share Rs.20
    (ii) Capitalisation rate 15%
    (iii) Internal rate of return from retained earnings 18%
    The company is considering a pay-out of 25%, 60% and 75%. Which of these would maximize the wealth of shareholders (Use Walter's Formula).
16. The capital structure of a company consists of the following:

10% preference shares (Rs.10 each)	100000
Equity share capital (Rs.10 each)	100000

The operating profit is Rs.60000. The company is in 50% tax bracket. Calculate financial leverage. What would be new financial leverage if operating profit increases to Rs.90000?

17. The current market price of shares of ABC Ltd. is Rs.160. Last year's dividend was Rs.15 per share. It is expected that given profitability rate of ABC Ltd, the dividend will grow at the rate of 7% per year. What is K_e of this company? (5 × 5 = 25 Marks)

Section – C

*Answer any **three** questions. Each question carries ten marks.*

18. What is meant by irrelevance concept of dividend? Discuss the irrelevance dividend theory propounded by MM.
19. What factors would you take into consideration in planning the working capital requirement of the firm? Explain them in brief.
20. Using operating cycle method, calculate working capital required by X Ltd from the information given below:
    i. Estimated sales 20000 units p.a.@Rs.5 per unit
    ii. Production and sales quantities coincide and will be carried on evenly throughout the year.
    iii. Production cost is estimated as under:
        Materials Rs.2.5 per unit
        Labour Re.1.00 per unit
        Overheads Rs.17500
    iv. Customers are given 60 days credit and 50 days' credit availed from suppliers
    v. 40 days' supply of raw materials and 15 days' supply of finished goods are kept in store.
    vi. Production cycle is 20 days and all the material are issued at the commencement of each production cycle.
    vii. 1/3 of average other working capital is kept as cash balance for contingencies.
21. There are two companies ALtd and B Ltd which are identical in all respects except in terms of their capital structure as indicated in the following table:

	A Ltd	B Ltd
EBIT	100000	100000
Debt	500000	-
Rate of interest	12%	-
Equity capitalization rate	20%	16%

Calculate the value of the two companies and illustrate using MM approach as how an investor holding 10% shares of A Ltd will be benefited by switching over his investment from A Ltd to B Ltd.

22. Given below is the Balance sheet of a company:

Equity share capital (Rs.10 each)	180000	Fixed assets	450000
Reserves and Surplus	60000	Current assets	150000
14% Debentures	240000		
Current liabilities	120000		
	600000		600000

Additional Information i) Total assets turn over 3 times, (ii) Variable costs 40% of sales, (iii) Fixed costs Rs.300000. Calculate operating and financial leverage.

(10 x 3 = 30 Marks)

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