Reg. No………………………….………………. Name…………………………………………… **14U347**

B.COM. DEGREE END SEMESTER EXAMINATION OCTOBER/NOVEMBER 2018

SEMESTER **–3: COMMERCE (OPTIONAL COURSE)**

COURSE: **U3OPCFT1-FINANCIAL MANAGEMENT**

(For Supplementary - 2014 admission)

Time: Three Hours Max. Marks: 75

SECTION A

*Answer **all** questions. Each question carries **1** marks.*

1. What do you mean by Trading on Equity?
2. What is sweat equity?
3. Explain the term Watered Stock?
4. Define Financial Management.
5. What do you mean by Financial Leverage?
6. What is Zero Coupon Bond?
7. What is cost of retained earnings?
8. What do you mean by Undercapitalization?
9. Name the relevance concepts of dividend?
10. What is meant by Capital Structure? $(1 \times 10 = 10)$

SECTION B

Answer ***any eight*** questions. Each question carries ***2*** marks.

11. Distinguish between Cost Theory and Earning Theory of capitalization.
12. What is zero working capital?
13. What is Net Income Approach?
14. Briefly explain the four finance functions.
15. What is financial structure?
16. Explain the process of capital rationing.
17. What is inflation indexed bonds?
18. What do you mean by Bonus Share?
19. Mention the determinants of Cost of Capital.
20. Give two assumptions of MM theory of capital structure. (2 x 8 = 16)

SECTION C

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

21. Explain the determinants of working capital.
22. A company issues 5000, 10% Preference shares of Rs. 100 each redeemable after 5 years at a premium of 10%. The cost of issue is Rs.2 per share. Calculate cost of preference share capital.
23. A company's current price of share is Rs 60 and dividend per share is Rs 4. If its capitalization rate is 12%, what is the dividend growth rate?

24. Details of Ranjini Ltd for the year 2018 are given below-

Costof goods sold	24,00,000
Operating cycle	73 days
Desired cash balance	50,000

You are required to calculate the expected working capital requirements.

25. X Ltd had earning share of Rs.11.04 in 2018 and paid a dividend of Rs.7 per share. The growth rate in earnings and dividends in the long term is expected to be 5%. The return on equity at X Ltd is expected to be 13.66%. The Beta for X Ltd is 0.80 and the risk –free treasury bond rate is 6%, while risk premium is 4%. Based on the information calculate Price to Book Value Ratio.
26. Good shape Company has currently an ordinary share capital of Rs.25 lakhs, consisting of 25,000 shares of Rs.100 each. The management is planning to raise another Rs.20 lakhs to finance a major programme of expansion through one of the four possible financing plans. The options are as under:
    a) Entirely through ordinary shares.
    b) Rs.10 lakh through ordinary shares and Rs.10 lakh through long term borrowings at 15% interest per annum.
    c) Rs.5 lakh through ordinary shares and Rs.15 lakh through long term borrowings at 16 % interest per annum.
    d) Rs.10 lakh through ordinary shares and Rs.10 lakh through preference shares with 14% dividend.

    The company's expected EBIT will be Rs.8 lakh. Assuming a corporate tax of 50%, determine the EPS in each alternative, and comment on the implications of financial leverage.
27. Agile Ltd. belongs to a risk class of which the appropriate capitalisation rate is 10%. It currently has 1,00,000 shares selling at Rs.100 each. The firm is contemplating declaration of dividend of Rs.6 per share at the end of the current fiscal year which has just begun. Assuming that the firm pays dividend, has net income of Rs.10 lakhs and makes new investment of Rs.20 lakhs during the period, how many new shares must be issued? (5 × 5 = 25)

SECTION D

*Answer **any two** question. Each question carries **12** marks*

28. Briefly describe the theories of capital structure.
29. Compute working capital required per cycle from the following.

Average debtors-	4,80,000
Raw material consumption-	44,00,000
Total production cost –	1,00,00,000
Total cost of sales –	1,05,00,000
Sales –	1,60,00,000

Value of average stock maintained:

Raw material –	3,20,000
Work in process –	3,50,000
Finished goods –	2,60,000
Period covered –	365 days

Average period of credit allowed by creditors – 15 days

Annual operating expense – 40,00,000

30. The following figures relating to two companies:

	A Ltd. (in lakhs)	B Ltd. (in lakhs)
Sales	1,000	2,000
Variable Costs	400	600
Contribution	600	1,400
Fixed cost	300	800
EBIT	300	600
Interest	100	200
Profit before Tax	200	400

You are required to:-

1. Calculate operating leverage, financial and Combined leverage
2. Comment in the relative risk position of them

31. X limited has 10,000 equity shares of Rs.100 each, the market value of the share is Rs.330 per share. It is expected that the firm would pay a dividend of Rs.25 per share at the end of the year. The firm has a new project which requires an investment of Rs.5,00,000. The share holders expect 20% return. The firm expects net profit of Rs.3,00,000 at the end of the year. Prove that dividend payment has no impact on the value of the firm by using MM theory.

(12 × 2 = 24)

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