Reg. No .... Name **22U361**

B. COM DEGREE END SEMESTER EXAMINATION : OCTOBER 2022

SEMESTER 3 : FINANCE AND TAXATION - OPTIONAL

COURSE : 19U3OPCFT1 : FINANCIAL MANAGEMENT

(For Regular - 2021 Admission and Improvement / Supplementary - 2020 / 2019 / 2018 / 2017 / 2016 / 2015 Admissions)

Time : Three Hours Max. Marks: 75

PART A

Answer any 10 (2 marks each)

1. Examine whether trading on equity is same as financial leverage.
2. Differentiate between capital structure and capitalisation.
3. What do you mean by stock splits?
4. Why is preference share known as a hybrid form of security?
5. From the following information compute percentage change in EPS when the sales are expected to decline by 5%. EBIT- Rs.1,20,000, contribution –Rs.40,000, interest – Rs.10,000.
6. What are the two concepts on which dividend theories are based?
7. Differentiate between EBT and EAT.
8. What is Annuity?
9. 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.
10. What is working capital?
11. How is bonus issue different from new issue of shares?
12. What is cost-volume-profit analysis?

(2 x 10 = 20)

PART B

Answer any 5 (5 marks each)

13. 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.
14. Briefly explain the objectives of financial management.
15. The following information is provided about Growmore Ltd. Find the MPS using Walter's model when IRR is (a) 8% (b)12% and pay-out ratios under each rate of return are 0%, 20% and 40%.
    EPS = Rs. 20
    Cost of capital (Ke) is 10%

16. Estella garment company limited had a production of 15,00,000, the same level is intended to be maintained in the current year. Estimate its working capital from the following-

    The expected ratio of cost to selling price are-
    Raw material 40%
    Direct wages 20%
    Overheads 20%

    Raw materials remain instore for 3 months, every unit remain in process for 2 months and is assumed to be consisting of 100% material, labour and overheads. Finished goods remain in store for 3 months. Credit allowed by creditors is 4 months and credit allowed to debtors is 3 months. Estimated balance of cash to be held Rs.2,00,000. Lag in payment of wages and expenses ½ month. Selling price Rs.10 per unit. You are required to make a provision of 10% for contingencies (except cash).

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

18. Imperial Ltd is contemplating the conversion of its 500, 14% convertible bonds of Rs.1000 each. Market price of the bond is Rs.1080. Bond indenture provides that one bond will be exchanged for 10 shares. P/E ratio before redemption is 20:1 and the anticipated P/E ratio after redemption is 25:1. Number of shares outstanding prior to redemption are 10,000. EBIT amounts to Rs.2,00,000. The company is in 35% tax bracket. Should the company convert bond into shares. Give reasons.

19. Following are the cost information of a firm:
    Fixed cost Rs.1,00,000, variable cost-80% of sales
    Sales Rs. 8,00,000 during the previous year and Rs. 12,00,000 during the current year
    Compute the degree of operating leverage.
    What will be your answer if there is no fixed cost?

20. 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.

(5 x 5 = 25)

PART C

Answer any 3 (10 marks each)

21. What are the challenges of a finance manager in the modern period? Examine the same in the light of finance function of a company

22. PQ Ltd gives the following details
    - Sales (credit period allowed 2 months) Rs. 12,00,000
    - Materials consumed (credit period allowed by suppliers 1 month) Rs. 3,60,000
    - Wages paid (maximum arrears 1 month) Rs.2,40,000
    - Manufacturing expenses outstanding at the end of the year Rs. 24,000 (expenses are paid after 1 month)
    - Administrative expenses for the year RS. 36,000 (expenses are paid after 3 months)
    - Sales promotion expenses Rs. 60,000 (paid in advance, quarterly)

- The company sells its product charging 25% gross profit
- It keeps one month's stock of raw materials and finished goods
- Cash balance required Rs. 50,000
- Expecting additional margin of 10% for safety

Compute the working capital requirement of the company. Ignore work in progress.

23. 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.

24. A company earns a profit of Rs. 3,00,000 per annum after meeting its interest liability of Rs.1,20,000 on 12% debentures. The tax rate is 50%. The number of equity shares of Rs.10 are 80,000 and the retained earnings amount to Rs. 12,00,000. The company proposes to take up an expansion scheme for which a sum of Rs. 4,00,000 is required. It is anticipated that after expansion, the company will be able to achieve the same return on investment as at present. The funds required for expansion can be raised either through debt at the rate of 12% or by issuing equity shares at par.

    Required-

    a) Compute the EPS if-

    - the additional funds were raised as debt

    -the additional funds were raised by issue of equity shares

    b) Advise the company as to which source of finance is preferable.

25. The sales and working capital figures of Suvidha Ltd for a period of 5 years are given as follows:

Year	Sales (Rs in lakhs)	Working capital (Rs in lakhs)
2013-14	60	12
2014-15	80	15
2015-16	120	20
2016-17	130	21
2017-18	160	23

You are required to forecast the working capital requirements of the company for the year 2018-19 taking the estimated sales of Rs. 200 lakhs.

(10 x 3 = 30)