Reg. No .... Name **23U371**

B. COM DEGREE END SEMESTER EXAMINATION : NOVEMBER 2023

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

COURSE : **19U3OPCFT1 : FINANCIAL MANAGEMENT**

(For Regular -2022 Admission and Improvement/Supplementary-2021/2020/2019/2018/2017/2016/2015 Admissions)

Time : Three Hours Max. Marks: 75

PART A

Answer any 10 (2 marks each)

1. What are bonus shares?
2. What are the assumptions of MM approach?
3. What is Modigliani Miller approach of capital structure?
4. Differentiate between return on equity and overall return on assets.
5. Differentiate between cost of debt and cost of preference shares.
6. 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%.
7. Differentiate between financial risk and business risk.
8. What is meant by time value of money?
9. What are the advantages of stock split?
10. Why is net working capital known as a qualitative concept?
11. What is gross working capital?
12. What do you mean by compound value?

(2 x 10 = 20)

PART B

Answer any 5 (5 marks each)

13. Gavi ltd. charges a profit of 20% on sales. The company gives the following information for the year ended 2014-15:

	Rs.
Sales (3 months credit)	40,00,000
Raw materials	12,00,000
Wages (15 days in arrear)	9,60,000
Manufacturing expenses (one month in arrear)	12,00,000
Sales promotion expenses (payable half yearly in advance)	2,00,000
Administration expenses (two months in arrear)	4,80,000

The company enjoys two months credit from suppliers of raw materials and maintains two months stock of raw materials and one and half months of finished goods. Cash balance is maintained at Rs.2,00,000 as a precautionary balance. Assuming a further contingency margin of 10%, find out the working capital requirements of the company.

14. Wealth maximisation is a better objective than profit maximisation-Substantiate.
15. "Working capital management is an indispensable functional area of financial management". Discuss briefly.
16. "A firm should follow a policy of a very high dividend pay-out". Do you agree, substantiate your answer?

17. The installed capacity of a company is 1,000 units. It is presently utilising 90% capacity. The selling price per unit is Rs.500. variable cost per unit is Rs.400.
Assume that all the units were sold.
Calculate operating leverage if the fixed costs are;
a) Rs. 50,000 b) Rs. 90,000 c) Rs. 1,00,000
Also give your comment based on findings.

18. Balance sheet of X Ltd as on 31-03-2019 is as follows

Liabilities		Assets	
Equity share capital (Rs.10 per share)	60,000	Net Fixed Assets	1,50,000
10% Debentures	80,000	Current Assets	50,000
Retained Earnings	20,000		
Current Liabilities	40,000		
	2,00,000		2,00,000

The company's total asset turnover ratio is 3. Its fixed operating cost are RS.1,00,000 and its variable operating cost ratio is 40%, the income tax rate is 50%.
a) Calculate for the company all the three types of leverages
b) Determine the likely level of EBIT when EPS is 5.

19. Your company's share is quoted at the market at Rs.50 currently. The company pays a dividend of Rs.4 per share and investors market expects a growth rate of 5 per cent per year. Compute:
a) The company's equity cost of capital
b) If the anticipated growth rate is 6% p.a. Calculate the indicated market price per share.
c) If the company's cost of capital is 18% and the anticipated growth rate is 5% p.a. Calculate the indicated market price if the dividend of Rs.4 per share is to be maintained.

20. A, B and C are identical companies in Cement industry. All the companies have equal EPS of Rs.60. the cost of equity has been estimated at 16%. Under Gordon's model, find out the market price of shares of the companies if the dividend pay-out ratio is as follows.
A-25% B-50% C-75%
Assume the internal rate of return is 15%

(5 x 5 = 25)

PART C
Answer any 3 (10 marks each)

21. Hindustan Chemicals Ltd has a paid-up equity capital of 6,00,000 equity shares of Rs. 10 each. The current market price of share is Rs.24. During the current year the company has declared a dividend of Rs.6 per share. The company has also previously issued 14% preference shares of Rs. 10 each aggregating Rs. 30 lakhs and 13%, 50,000 debentures of Rs. 100 each. The company's corporate tax rate is at 40%, the growth in dividends on equity shares is expected at 5%. In case of preference shares the company has received only 95% of the face value of shares after deducting issue expenses. Calculate WACC of the company.

22. "Money have time value" - Explain giving the reasons and the techniques.

23. Hitek Limited plans to sell 30,000 units next year. The expected cost of goods sold is as follows:

	Unit cost (Rs.)	Monthly cost @(Rs.)
Raw Material	100	2,50,000
Manufacturing Expenses	30	75,000
Selling, Administration and Financial Expenses	20	50,000

@ At a monthly sales level of 2,500 units; the selling price per unit is expected to be Rs. 200.

The durations at various stages of the operating cycle is expected to be as follows:

Raw material stage	2 months
Work in process stage	1 month
Finished goods stage	½ month
Debtors stage	1 month

Required:

a) Calculate the investment in various current assets;

b) Estimate the gross working capital requirement if the desired cash balance is 5 per cent of the gross working capital requirement.

24. Examine the importance of operating cycle concept in determining working capital with suitable figures and examples.

25. XYZ Ltd. is considering three financial plans for which the key information is as below:

a) Total investment to be raised Rs. 4,00,000.

b) Plans of financing proportion:

Plans	Equity	Debt	Preference shares
A	100%	-	-
B	50%	50%	-
C	50%	-	50%

c) Cost of debt 8%: cost of preference shares 8%

d) Tax rate 50%

e) Equity shares of the face value of Rs.10 each will be issued at a premium of Rs.10 per share.

f) Expected EBIT is Rs. 1,60,000.

Determine for each plan;

i) EPS

II) Financial break-even point

iii) Compute EBIT range among the plans for point of indifference.

(10 x 3 = 30)