Reg. No .... Name **24U376**

B.COM. DEGREE END SEMESTER EXAMINATION - OCTOBER 2024

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

COURSE : **19U3OPCFT1 : FINANCIAL MANAGEMENT**

(For Regular 2023 Admission and Improvement/Supplementary 2022/ 2021/2020/2019/2018/2017/2016/2015 Admissions)

Time : Three Hours Max. Marks: 75

PART A

Answer any 10 (2 marks each)

1. What is dividend pay-out ratio?
2. 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.
3. What is cost of goods sold?
4. What do you mean by wealth maximisation?
5. What is meant by time value of money?
6. Surya industries Ltd has raised funds through issue of 10,000 debentures of Rs 150 each at a discount of Rs. 10 per debenture with 10 years maturity. The coupon rate is 16%. The floatation cost is Rs. 5 per debenture. The debentures are redeemable with a 10% premium. The corporate taxation rate is 40%. Calculate the cost of debentures.
7. What are the two concepts on which dividend theories are based?
8. What are the assumptions of MM approach?
9. X ltd issues equity shares of Rs.100 each at a premium of 20%. Floatation costs including underwriting commission is Rs.5 per share. The company expects to pay initial dividend Rs.20 per share and it has been estimated that the dividend rate will grow by 5%. Find the cost of equity.
10. What do you mean by annuity discount factor?
11. What is seasonal working capital?
12. What is Annuity?

(2 x 10 = 20)

PART B

Answer any 5 (5 marks each)

13. Explain how the techniques of compounding are applicable to lump sum deposits, a series of payments and annuity giving examples for each.
14. The capital structure of Vikas Ltd. Is as follows:

Source	Book Value	Market Value
a. Equity share capital	10,00,000	20,00,000 (200% of book value)
b. Retained earnings	5,00,000	-
c. 14% preference share capital	7,00,000	7,00,000 (just par)
d. Debentures	6,00,000	6,00,000 (just par)

After tax cost of capital of these different sources is equity share capital 18%, retained earnings 15%, preference share capital 14% and debentures 8%. Calculate Weighted Average Cost of Capital of the company.

15. XYZ limited is in tax bracket of 33%. The par value of equity share is Rs.10. The management is evaluating the following alternative financing plans and you are required to find the level of EBIT at which the indifference point between the financing plans occur:

a) The require amount of capital is 20 lakhs. It can be financed by Rs. 12 lakhs equity and Rs. 8 lakhs debt @ 12% per annum or Rs. 8 lakhs equity and Rs. 8 lakhs debt @ 11% per annum and Rs. 4 lakhs preference share capital at 13%.

b) The required amount of capital is Rs. 20 lakhs. It can be financed by Rs 15 lakhs equity and Rs. 5 lakhs preference share capital at 12% or equity share capital of Rs. 10 lakhs, Rs. 5 lakhs of preference capital at 12% and Rs. 5 lakhs at debt @10% p.a.

16. 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.

17. Devi ltd. produces 1,56,000 units p.a. the company gives the following details:

	Cost per unit
Raw material	90
Direct labour	40
Overhead	75
Total cost	205
Profit	60
Selling price	265

Additional information:

i) Raw material is in stock on an average for one month and material are in process on an average for 2 weeks. Finished goods are in stock for one month.

ii) Credit allowed by suppliers one month and delay in payment from debtors-2 months.

iii) Lag in payment of wages 2 weeks and in payment of overhead one month.

iv) Cash in hand and at bank is expected to be Rs.60,000

All sales are on credit and production is carried on evenly throughout the year. wages and overhead, accrue evenly and a period of 4 weeks is equivalent to a month.

18. Prepare the income statement of a firm which gives the following details relating to its operations-

Operating leverage	4
Financial leverage	2
Annual interest paid	Rs. 10 lakhs
Contribution /sales	0.4
Tax rate	40%

19. What do you mean by working capital cycle?

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. Calculate degree of operating leverage, financial leverage and combined leverage from the following data:
Sales 1,00,000 units @ Rs.2 per unit = Rs.2,00,000
Variable cost per unit @ Re.0.70
Fixed costs Rs. 1,00,000
Interest charges Rs.3,668
Which combinations of operating and financial leverages constitute i) risky situation and ii) an ideal situation.

23. The management of Royal industries has called for a statement showing the working capital needs to finance a level of activity of 1,80,000 units of output for the year. The cost structure for the company's product for the above-mentioned activity level is detailed below:

Raw materials	20
Direct labour	5
Overheads (including depreciation of Rs.5 per unit)	15
	40
Profit	10
Selling price	50

Additional information:
a) Minimum desired cash balance is Rs. 20,000
b) Raw materials are held in stock, on an average for 2 months
c) Work-in-progress (assume 50% completion stage) will approximate to half month's production
d) Finished goods remain in warehouse, on an average, for a month
e) Suppliers of materials extend a month's credit and debtors are provided two month's credit; cash sales are 25% of total sales
f) There is a time lag in payment of wages of a month and half a month in case of overheads.
Prepare a statement showing working capital needs.

24. Prepare working capital requirement from the following information:
Average collection period 60 days
Average payment period 75 days
Inventory holding period 90 days
(Calculate with reference to cost of goods sold)
Cash and Bank Balance 2.5% of sales
Sales Rs. 20,00,000, gross profit-25%
Credit purchases 1/3 of cost of goods sold
The company expects 50% sales increment during the next year:
(Assume 1 year = 360 days)

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

(10 x 3 = 30)