IV Semester 5 Year B.B.A., LL.B./B.Com., LL.B. Examination, April/May 2022 (Dec. 2021)
FINANCIAL MANAGEMENT

Duration : 3 Hours

Max. Marks : 80

Instructions :
1. **Answer all five Units.**
2. **One essay type question and short note/problems is compulsory from each Unit.**
3. **Figures to the right indicate marks.**
4. **Answer should be written in English completely.**

UNIT – I

Q. No. 1. a) The following is the capital structure of a company. Marks : 10

Source of capital	Bookvalue (₹)	Market value (₹)
Equity shares of ₹ 100 each	8,00,000	16,00,000
9% cumulative preference shares @ ₹ 100 each	2,00,000	2,40,000
11% debentures (₹ 100 each)	6,00,000	6,60,000
Retained earnings	4,00,000	–
	20,00,000	25,00,000

The current market price of the company's equity share is ₹ 200. For the last year the company had paid equity dividend at 25% and its dividend is likely to grow by 5% every year. The corporate tax rate is 30% and shareholders personal income tax rate is 20% calculate :

(i) Cost of capital for each source of capital.

(ii) Weighted average cost of capital on the basis of book value weights.

OR

Q. No. 1. a) A firm has the following capital structure and after tax costs for the different sources of funds used : Marks : 10

Source of funds	Amount	After tax cost
	(₹)	(%)
Debt	4,50,000	7
Preference capital	3,75,000	10
Equity capital	6,75,000	15
	15,00,000	

Calculate the weighted average cost of capital using book value weights.

Q. No. 1. b) Write a short note on CAPM model. Marks : 6

OR

Q. No. 1. b) Explain the importance of cost of capital. Marks : 6

UNIT – II

Q. No. 2. a) A Co. Ltd. has equity share capital of ₹ 5,00,000 divided into shares of ₹ 100 each. It wishes to raise further ₹ 3,00,000 for expansion and modernisation plans. The company plans the following financing schemes : Marks : 10

(i) All common stock

(ii) ₹ 1,00,000 in common stock and ₹ 2,00,000 in debt @ 10% p.a

(iii) All debt at 10% p.a

(iv) ₹ 1,00,000 in common stock and ₹ 2,00,000 in preference capital with the rate of dividend at 8%. The company's expected earnings before interest and tax (EBIT) are ₹ 1,50,000. The corporate rate of tax is 50%.

Determine the EPS in each plan and comment which alternative is best and why ?

OR

Q. No. 2. a) Discuss the determinants of capital structure. Marks : 10

Q. No. 2. b) Explain the assumptions of MM approach under dividend theory. Marks : 6

OR

Q. No. 2. b) Explain the forms of dividend. Marks : 6

UNIT – III

Q. No. 3. a) A proforma cost sheet of a company provides the following particulars : Marks : 10

Elements of cost

Material	40%
Direct labour	20%
Overheads	20%

The following further particulars are available :

(i) It is proposed to maintain a level of activity of 2,00,000 units.

(ii) Selling price ₹ 12 per unit.

(iii) Raw materials are expected to remain in stores for an average period of one month.

(iv) Material will be in process, on average half a month and is assumed to be consisting of 100% raw materials, wages and overheads.

(v) Finished goods are required to be in stock for an average period of one month.

(vi) Credit allowed to debtors is 2 months.

(vii) Credit allowed by suppliers is one month.

Assume that sales and production follow a consistent pattern. Prepare a statement of working capital requirements.

OR

Q. No. 3. a) What is working capital ? Discuss the factors influencing working capital. Marks : 10

Q. No. 3. b) Write a short note on : Marks : 6

Inventory management.

OR

Q. No. 3. b) Cash management. Marks : 6

UNIT – IV

Q. No. 4. a) A company is considering investment in a project that costs ₹ 2,00,000. The project has an expected life of 5 years and zero salvage value. The company uses straight line method of depreciation. The company's tax rate is 40%. The estimated earnings before depreciation and tax from the project are as follows : Marks : 10

Year	Earnings before Depreciation and Tax (₹)	P.V. factor @10%
1	70,000	0.909
2	80,000	0.826
3	1,20,000	0.751
4	90,000	0.683
5	60,000	0.621

You are required to calculate net present value at 10% and advise the company.

OR

Q. No. 4. a) Bharath International, an India based multinational company is evaluating an overseas investment proposal. It is considering a project to build a plant in UK. The project will entail an initial outlay of £ 50 and is expected to generate the following cashflows over its four year life. Marks : 10

Year	Cashflow (in/million)
1	£ 20
2	£ 30
3	£ 20
4	£ 10

The current spot exchange rate is ₹ 98 per British pound (£), the risk-free rate in India is 7% and the risk-free rate in UK is 3%.

Bharath International's required rupee return on a project of this kind is 20%.

Calculate NPV of the project using Home currency approach.

Q. No. 4. b) Write a short note on :

Multinational capital budgeting. Marks : 6

OR

Q. No. 4. b) Multinational working capital management. Marks : 6

UNIT – V

Q. No. 5. a) S Ltd. is taking over M Ltd. as per the understanding between the management of the two companies shareholders of M Ltd. would receive 0.7 shares of S Ltd. for each share held by them. The relevant data for the two companies are as follows : Marks : 10

	S Ltd.	M Ltd.
Net sales (₹ in lakhs)	80	30
Profit after tax (₹ in lakhs)	16	4
Number of shares (Lakhs)	3.2	1
Earnings per share (₹)	5	4
Market value per Share (₹)	30	20
Price-earning Ratio (P/E)	6	5

Ignoring the economics of scale and operating synergy, you are required to calculate :

(i) Number of shares after the merger

(ii) Combined P/E ratio

(iii) Total market capitalisation after the merger.

OR

Q. No. 5. a) A Ltd. wants to take over B Ltd. the financial details of both the companies are as below : Marks : 10

	A Ltd. (₹)	B Ltd. (₹)
Equity share capital of ₹ 10 each	2,00,000	1,00,000
Preference share capital	40,000	–
Share premium	–	4,000
P and L A/c	76,000	8,000
10% debentures	30,000	10,000
Total liabilities	**3,46,000**	**1,22,000**

Fixed assets	2,44,000	70,000
Current assets	1,02,000	52,000
Total assets	**3,46,000**	**1,22,000**
Profit after tax and preference dividend	48,000	30,000
Market price per share	24	27

You are required to determine the share exchange ratio to be offered to the shareholders of B Ltd. based on

(i) Net assets value

(ii) EPS

(iii) Market price

Which should be preferred from the point of view of A Ltd. ?

Q. No. 5. b) Write a short note on : Marks : 6

Advantages of merger.

OR

Q. No. 5. b) Reasons for merger. Marks : 6