Fourth Semester 5 Year B.B.A. LL.B./B.Com. LL.B. Examination, October/November 2022 (June 2022)
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 only.

UNIT – I

Q. No. 1. (a) The capital structure of Finetech Ltd. is as under : Marks : 10

	₹
9% Debentures of ₹ 100 each	5,50,000
11% Preference shares of ₹ 100 each	4,50,000
Equity shares of ₹ 10 per share	10,00,000
	20,00,000

Additional Information :

(i) ₹ 100 per debenture redeemable at par has 2% floatation cost and 10 years of maturity. The market price per debenture is ₹ 105.

(ii) ₹ 100 per preference share redeemable at par has 3% floatation cost and 10 years of maturity. The market price per preference share is ₹ 106.

(iii) Equity share has market price per share of ₹ 20. The next year's expected dividend is ₹ 2 per share with annual growth of 5%. The firm has a practice of paying the earnings in the form of dividends.

(iv) Corporate income tax rate is 35% .

You are required to calculate :

(a) Cost of each source of capital.

(b) Weighted average cost of capital using market value weights.

OR

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

Source of funds	Book value (₹)	Market value (₹)	After tax Cost (%)
Debt	15,00,000	15,00,000	5
Preference shares	12,00,000	12,00,000	10
Equity shares	18,00,000	54,00,000	12
Retained earnings	15,00,000	–	11
Total	**60,00,000**	**81,00,000**	

Compute the weighted average cost of capital :

(i) On the basis of book value

(ii) On the basis of market value.

Q. No. 1. (b) Write short notes on : Marks : 6

Significance of cost of capital.

OR

Q. No. 1. (b) Problems in determination of cost of capital. Marks : 6

UNIT – II

Q. No. 2. (a) A company's capital structure consists of the following : Marks : 10

	₹
Equity share of ₹ 100 each	20,00,000
Retained earnings	10,00,000
9% Preference shares	12,00,000
7% Debentures	8,00,000
Total	**50,00,000**

The company earns 12% on its capital. The income-tax rate is 50%. The company requires a sum of ₹ 25,00,000 to finance its expansion programme for which the following alternatives are available to it.

(i) Issue of 20,000 equity shares at a premium of ₹ 25 per share.

(ii) Issue of 10% preference shares.

(iii) Issue of 8% debentures.

It is estimated that the P/E ratios in the cases of equity, preference and debenture financing would be 21.4, 17 and 15.7 respectively.

Which of the three financing alternatives would you recommend and why ?

OR

Q. No. 2. (a) What are the factors that influence dividend policy ? Marks : 10

Q. No. 2. (b) Write a short note on : Marks : 6

MM Approach under capital structure theory.

OR

Q. No. 2. (b) Explain the types of dividend policy. Marks : 6

UNIT – III

Q. No. 3. (a) You are given the following estimates and are instructed to add 10% margin for contingencies. Marks : 10

		₹
(i)	Amount blocked up for stocks :	
	Stocks of finished product	5,000
	Stocks of stores, materials etc.	8,000
(ii)	Average credit given :	
	Inland sales – 6 weeks credit	3,12,000
	Export sales – 1½ weeks credit	78,000
(iii)	Lag in payment of wages and other outgoings :	
	Wages – 1½ weeks	2,60,000
	Stocks of materials, etc. – 1½ months	48,000
	Rent, Royalties etc. – 6 months	10,000
	Clerical staff – ½ month	62,400
	Manager – ½ month	4,800
	Miscellaneous expenses – 1½ month	48,000
(iv)	Payment in advance :	
	Sundry expenses (paid quarterly in advance)	8,000
(v)	Undrawn profit on the average throughout the year	11,000

Compute the amount of working capital required.

OR

Q. No. 3. (a) Prepare an estimate of working capital requirement from the following information. Marks : 10

(i) Projected Annual sales 120000 units.

(ii) Selling price ₹10 per unit.

(iii) Percentage net profit on sales 30%.

(iv) Average credit period allowed to customers – 10 weeks.

(v) Average credit period allowed to suppliers – 5 weeks.

(vi) Average stock holding in terms of sales requirement – 5 weeks.

(vii) Allow 15% for contingencies.

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

Types of working capital.

OR

Q. No. 3. (b) Dangers of inadequate working capital. Marks : 6

UNIT – IV

Q. No. 4. (a) A company is considering to purchase a machine.

Two machines are available X and Y costing ₹ 50,000. Marks : 10

Earnings after taxation are expected to be as follows :

Estimated cash flows :

Years	Machine X (₹)	Machine Y (₹)
1	15,000	5,000
2	20,000	15,000
3	25,000	20,000
4	15,000	30,000
5	10,000	20,000

Evaluate the two alternatives according to :

(i) Payback period method.

(ii) Net present value method (cost of capital 10%). Assume straight line method of depreciation.

The discount factor is as under :

Year	1	2	3	4
Discount factor @ 10%	0.909	0.826	0.751	0.683
Year	5			
Discount factor	0.621			

OR

Q. No. 4 (a) India Pharma Ltd., an Indian based multinational company is evaluating an overseas investment proposal. India Pharma's exports of pharmaceuticals products have increased to such an extent that it is considering a project to build a plant in the US. The project will entail an initial outlay of \$ 100 million and is expected to generate the following cash flows over its four year life. Marks : 10

Year	Cash flow (in million)
1	\$ 30
2	\$ 40
3	\$ 50
4	\$ 60

The current spot exchange rate is ₹ 70 per US dollar, the risk-free rate in India is 8% and the risk-free rate in US is 3% – these are rates observed in financial markets.

India Pharma's required rupee return on a project of this kind is 15%.

Calculate NPV of the project.

Q. No. 4 (b) Write short notes on : Marks : 6

Financial Management of Multinational Corporations.

OR

Q. No. 4 (b) Management Accounting by Multinational Firms. Marks : 6

UNIT – V

Q. No. 5. (a) Company X is considering the purchase of Company Y. The following are the financial data of the two companies : Marks : 10

	Company X	Company Y
Number of shares	4,00,000	1,00,000
Earnings Per Share (EPS)	₹ 6	₹ 4.50
Market value per share	₹ 30	₹ 20

Assuming that the management of the two companies have agreed to exchange shares in proportion to :

(i) The relative earnings per share of the two firms.

(ii) 4 shares of Company X for every 5 shares held in Company Y.

Illustrate and comment on the impact of merger on the EPS.

OR

Q. No. 5. (a) East Co. Ltd. is studying the possible acquisition of Fost Co. Ltd. by way of merger. Marks : 10

The following data are available in respect of the companies :

	East Co. Ltd.	Fost Co. Ltd.
Earnings after tax (₹)	2,00,000	60,000
No. of equity shares	40,000	10,000
Market value per share (₹)	15	12

If the merger goes through by exchange of equity share and the exchange ratio is based on the current market price, what is the new earnings per share of East Co. Ltd. ?

Q. No. 5 (b) State the reasons for merger. Marks : 6

OR

Q. No. 5 (b) Write a short note on "Types of Mergers. Marks : 6