



6017/7017

**IV Semester 5 Year B.B.A.,LL.B./B.Com.LL.B.
Examination, March/April 2023 (Dec. 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 completely.
 5. Use simple calculator only.

UNIT – I

Q. No. 1. a) Hari Ltd. has the following capital : Marks : 10

Equity share capital :

(20000 shares @ Rs. 20/share) Rs. 4,00,000

6% Preference share capital Rs. 1,00,000

8% Debenture Rs. 3,00,000

The market price of equity share is Rs. 20 per share, the company is expected to pay dividend of Rs. 2 per share which will grow at 7%.

Calculate weighted average cost of capital assuming that the company is under 50% tax bracket.

Also, calculate the new weighted average cost of capital if the company raises an additional Rs. 2,00,000 debt by issuing 10% debentures, this would result in increase in expected dividend to Rs. 3 per share and leave the growth rate unchanged, but the market price of the share will come down to Rs. 15/share.

OR

Q. No. 1. a) Elaborately explain capital asset pricing model. Marks : 10

Q. No. 1. b) Write a short note on significance of cost of capital. Marks : 6

OR

Q. No. 1. b) Write a short note on cost of equity shares and retained earnings.

Marks : 6

P.T.O.



UNIT – II

- Q. No. 2. a) A Ltd. belongs to a risk class for which the appropriate discount rate is 10%. It currently has 25,000 outstanding shares selling at Rs. 100 each. The firm is contemplating a dividend payment of Rs. 5 per share, at the end of current financial year. It expects to have a net income of Rs. 2,50,000 and a proposal for making new investments of Rs. 5,00,000. Show that under the MM hypothesis the payment of dividend does not affect the value of the firm. Marks : 10

OR

- Q. No. 2. a) Explain various factors which influence the capital structure of a company. Marks : 10

- Q. No. 2. b) Explain the traditional approach of capital structure. Marks : 6

OR

- Q. No. 2. b) Write a short note on factors affecting dividend policy. Marks : 6

UNIT – III

- Q. No. 3. a) Explain the factors influencing the working capital requirements. Marks : 10

OR

- Q. No. 3. a) Gani Ltd. sells goods on a gross profit of 25%. Depreciation is taken into account as a part of cost of production. The following are the annual figures given to you. Marks : 10

Particulars	Rs.
Sales (2 months credit)	18,00,000
Material consumed (1 month credit)	4,50,000
Wages (1 month lag in payment)	3,60,000
Cash manufacturing expenses (1 month lag in payment)	4,80,000
Administrative expenses (1 month lag in payment)	1,20,000
Sales promotion expenses (paid currently in advance)	60,000
Income tax payable in 4 instalments of which one lies in next year	1,50,000



The company keeps one month's stock of each raw material and finished goods. It also keeps Rs. 1,00,000 in cash. You are required to estimate the working capital requirements of the company assuming 15% safety margin.

Q. No. 3. b) Explain in brief techniques of inventory control. Marks : 6

OR

Q. No. 3. b) Write a short note on need of working capital management. Marks : 6

UNIT – IV

Q. No. 4. a) Explain various factors peculiar to Multi National Corporations. Marks : 10

OR

Q. No. 4. a) India Pharma Ltd. an India based MNC is evaluating an overseas investment proposal. India Pharma 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	Flow of cash (in million)
1	\$ 30
2	\$ 40
3	\$ 50
4	\$ 60

The current spot exchange rate is Rs. 70 per US dollar, the risk free rate in India is 8% and the risk free rate in US is 3%. These rates observed in the financial markets.

Indian Pharma's required rupee return on the project is 15%. Should Indian Pharma undertake this project? How is the undertake NPV of such a project calculated?

Q. No. 4. b) Write a short note on multinational capital budgeting. Marks : 6

OR

Q. No. 4. b) Write a short note on factors influencing capital structure of an MNC. Marks : 6



UNIT – V

Q. No. 5. a) Explain various reasons for mergers.

Marks : 10

OR

Q. No. 5. a) XYZ Ltd. wants to acquire ABC Ltd.

Marks : 10

Particulars	Firm XYZ	Firm ABC
Present earnings (Rs. in million)	20	4
Shares (in million)	10	1
Price earning ratio	18	10

Case I : If the two firms were to merge and the exchange ratio were one share of firm XYZ for each shares of firm ABC. What would be the initial impact on EPS of the two firms.

Case II : If the firm XYZ wants to takeover the firm ABC by offering a premium of 20% over the market price of share. What is the ratio of exchange of stock and how many new shares will be issued ?

Q. No. 5. b) Write a short note on types of mergers.

Marks : 6

OR

Q. No. 5. b) Write a short notes on benefits of mergers.

Marks : 6
