IV Semester 5 Years B.Com. LL.B./B.B.A. LL.B.
Examination, September/October 2023 (June 2023)
FINANCIAL MANAGEMENT

Duration : 3 Hours Max. Marks : 80

Instructions : 1. Answer all five Units.

2. One essay type question and short note/problem is compulsory from each Unit.

3. Figures to the right indicate marks.

4. Answers should be written in English only.

UNIT – I

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

Source	Amount (Rs.)	Specific C/c
Equity share capital (20000 shares of Rs. 10 each)	Rs. 2,00,000	11 %
Preference share capital (50000 shares of Rs. 10 each)	Rs. 5,00,000	8 %
Retained earnings	Rs. 10,00,000	11 %
Debt of Rs. 1,000 each	Rs. 15,00,000	4.5 %

Presently, the debentures are being traded at 94%, preference shares at par and the equity shares at Rs. 13 per share. Find out the WACC based on book value weights and market value weights.

OR

Q. No. 1. (a) Calculate the cost of capital in the following cases : Marks : 10

(i) A Ltd. issues 12 % debentures of face value Rs. 100 each and realizes Rs. 95 per debenture. The debentures are redeemable after 10 years at a premium of 10 %.

(ii) B Ltd. issues preference shares of face value Rs. 100 each carrying 14 % dividend and he realizes Rs. 92 per share. The shares are repayable after 12 years at par.

Note : Both companies are paying income tax at 50 %.

Q. No. 1. (b) Define Financial Management. Explain its scope. Marks : 6

OR

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

UNIT – II

Q. No. 2. (a) Compute the market value of the firm. Value of shares and the average cost of capital from the following information :

Net operating income Rs. 1,00,000

Total Investment Rs. 5,00,000

Equity capitalization rate :

(a) If the firm uses no debt 10 %.

(b) If the firm uses Rs. 2,50,000 debentures 11 %.

(c) If the firm uses Rs. 4,00,000 debentures 13 %.

Assume that Rs. 2,50,000 debentures can be raised at 6 % rate of interest where-as Rs. 4,00,000 debentures can be raised at 7 % rate of interest. Marks : 10

OR

Q. No. 2. (a) ABC Ltd. has Earnings Before Interest and Taxes (EBIT) of Rs. 4,00,000. The firm currently has outstanding debt of Rs. 15,00,000 at an average cost, cost of debt of 10 %. Its cost of equity capital is estimated to be 16 %.

(i) Determine the current value of the firm using the Traditional Valuation approach.

(ii) Determine the firms overall capitalization rate.

(iii) The firm is considering to issue capital of Rs. 5,00,000 in order to redeem Rs. 5,00,000 debt. The cost of debt is expected to be unaffected. However, the firm's cost of equity capital is to be reduced to 14 % as a result of decrease in leverage. Would you recommend the proposed action ? Marks : 10

Q. No. 2. (b) Define capital structure. Explain the factors determining capital structure. Marks : 6

OR

Q. No. 2. (b) Write a note on Modigliani and Miller Approach. Marks : 6

UNIT – III

Q. No. 3. (a) The following information is available for Swagat Ltd.

Particulars	**(Rs. Million)**
Average stock of raw materials and stores	200
Average work-in-process inventory	300
Average finished goods inventory	180
Average accounts receivable	300
Average accounts payable	180
Average raw material and stores purchase on credit and consumed per day	10
Average sales per day	20
Average cost of goods sold per day	18
Average work-in-process value of raw materials committed per day	12.5

You are required to calculate the duration of :

(i) Raw material stage

(ii) Work-in-progress stage

(iii) Finished goods stage

(iv) Accounts receivable stage

(v) Accounts payable stage and

(vi) The operating cycle. Marks : 10

OR

Q. No. 3. (a) Sagar Ltd. desires to purchase a business and has consulted you and one point on which you are to advise them is the average amount of working capital which will be required in the first year's working.

You have given the following estimates and instructed to add 10 % to your computed figure to allow for contingencies.

	Figures for the year (Rs.)
(i) Amount blocked up for stocks :	
Stocks of finished product	3,000
Stocks of stores, materials etc.	5,000
(ii) Average credit given :	
Inland sales – 4 weeks credit	26,000
Export sales – 1½ week credit	65,000
(iii) Lag in payment of wages and other outputs :	
Wages – 1½ weeks	2,40,000
Stocks of materials etc. – 1½ months	36,000
Rent, Royalties, etc. – 4 months	8,000
Clerical staff – 1½ months	60,000
Manager – ½ month	4,000
Miscellaneous expenses – 1½ month	36,000
(iv) Payment in advance :	
Sundry expenses (Paid quarterly in advance)	6,000
(v) Undrawn profit on the average throughout the year	9,000

State your calculation for the average amount of working capital required. Marks : 10

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

OR

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

UNIT – IV

Q. No. 4. (a) A company has to consider the following project :

Cost	Rs. 10,000
Cash inflows (year)	Rs.
1	1,000
2	1,000
3	2,000
4	10,000

Compute the Inter Rate of Return (IRR) and comment on the project if the opportunity cost is 14%. Marks : 10

OR

Q. No. 4. (a) A company is considering the replacement of its existing machine which is obsolete and unable to meet the rapidly rising demand for its product. The company is faced with two alternatives :

(i) to buy Machine A which is similar to the existing machine or

(ii) to go in for Machine B which is more expensive and it has much greater capacity. The cash flows at the present level of operations under the two alternatives are as follows :

Year	**Machine A**	**Machine B**
0	– 25	– 40
1	Nil	10
2	5	14
3	20	16
4	14	17
5	14	15

The company's cost of capital is 10 %. The Finance Manager tries to evaluate the machines by calculating the following :

(i) Net present value

(ii) Profitability index

(iii) Payback period and

At the end of his calculations, however the Finance Manager is unable to make up his mind as to which machine to recommend.

You are required to make these calculation and in the light thereof to advise the finance manager about the proposed investment. Marks : 10

Q. No. 4. (b) Write a note on capital structure of MNCs. Marks : 6

OR

Q. No. 4. (b) Write a note on factors determining MNC's dividend policy. Marks : 6

UNIT – V

Q. No. 5. (a) B Co., is being acquired by A Co., on a share exchange basis their selected data are as follows :

Particulars	**A**	**B**
PAT (Rs. lakh)	56	21
No. of shares (lakh)	10	8.4
EPS (Rs.)	5.6	2.5
Price-earnings ratio	12.5	7.5

Determine :

(i) Pre-merger, market value per share and

(ii) The maximum exchange ratio A Co., should offer without the dilution of

(a) EPS

(b) Market value per share. Marks : 10

OR

Q. No. 5. (a) P Ltd. wants to takeover Q Ltd. and the financial details of both are as follows :

	P Ltd. (Rs.)	Q Ltd. (Rs.)
Preference share capital	20,000	–
Equity share capital of Rs. 10 each	1,00,000	50,000
Share premium	–	2,000
Profit and Loss A/c	38,000	4,000
10 % Debentures	15,000	5,000
	1,73,000	**61,000**
Fixed Assets	1,22,000	35,000
Current Assets	51,000	26,000
	1,73,000	**61,000**
Profit after tax and preference dividend	24,000	15,000
Market price	24	27

What should be share exchange ratio to be offered to the shareholders of Q Ltd., based on

(i) Net Assets value

(ii) EPS and

(iii) Market price

Which should be preferred from the point view of P Ltd. ? Marks : 10

Q. No. 5. (b) Explain the stages involved in merger and acquisition. Marks : 6

OR

Q. No. 5. (b) What is merger and acquisition ? Explain the types of merger. Marks : 6